Annual Report 07

REACHING OUT
reaching higher

Manitoba Public Insurance

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Manitoba Public Insurance is a non-profit provincial Crown corporation that has provided basic automobile coverage since 1971. We assumed a broader spectrum of services in 2004, when we merged driver and vehicle licensing into our operations. The corporation is governed by *The Manitoba Public Insurance Corporation Act* and *The Drivers and Vehicles Act*.

Selected highlights of this annual report are available in French at www.mpi.mb.ca

Les grandes lignes du rapport sont présentées en français dans le site www.mpi.mb.ca

OUR MISSION

Working with Manitobans to reduce risk on the road

At Manitoba Public Insurance We Value...

OUR CUSTOMERS

Our customers' interests are at the heart of everything we do. We balance the individual customer's needs with the needs of Manitobans as a whole. We base our relationships on respect, fairness, honesty and integrity. We safeguard the confidentiality of information and personal privacy. We are committed to the highest ethical standards and excellence in service.

OUR PEOPLE

Our people are given the skills, tools and encouragement they need to succeed. We provide a respectful, inclusive and safe environment where our staff is well trained, confident and committed to the Corporate Mission. We provide our people with clear and consistent direction. Our people have the authority they need to do their jobs, providing a sense of achievement from their work, and the opportunity for career growth and advancement. We encourage and support our people to make a positive contribution, both inside and outside the workplace.

WORKING TOGETHER

We work co-operatively with each other and with our business associates, sharing expertise, ideas and resources. Each of us, in our daily work, creates a team environment, drawing on one another to do the best job possible. Our communication with one another is respectful, appropriate and helpful.

FINANCIAL RESPONSIBILITY

Manitoba Public Insurance holds the funds of its policyholders in trust to meet their needs into the future. We operate in a fiscally responsible and cost-effective manner, using investment income to reduce rates and provide long-term benefits to Manitobans.

EXCELLENCE AND IMPROVEMENT

We constantly improve our products, services and procedures. As our customers' needs and the business environment continue to change, so must we. We value initiative, creativity and a strong desire for personal, team and corporate success in everything we do. We recognize and reward excellence and improvement in our work.

OUR CORPORATE CITIZENSHIP

We lead by example, conducting our affairs responsibly and professionally. We contribute to the social and economic well-being of our communities as well as the sustainable development of Manitoba now and into the future.

Letters of Transmittal

May 12, 2008

Honourable David Chomiak
Minister Responsible for the Manitoba Public Insurance Corporation
Room 104, Legislative Building
Winnipeg, MB R3C 0V8

Dear Minister:

In accordance with Section 43(1) of The Manitoba Public Insurance Corporation Act, I have the honour of submitting the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 29, 2008.

Respectfully submitted,

Shari Decter Hirst
Chairperson of the Board

Manitoba Public Insurance

May 12, 2008

The Honourable John Harvard
Lieutenant Governor of the Province of Manitoba
Room 235, Legislative Building
Winnipeg, MB R3C 0V8

May it please your honour:

I have the privilege of presenting the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 29, 2008.

Respectfully submitted,

David Chomiak
Attorney General and Minister of Justice
Minister Responsible for Manitoba Public Insurance

Manitoba

2007 Year-End Summary

Unless otherwise indicated, the following are 2007/08 fiscal year totals, covering the period March 1, 2007 to February 29, 2008

Dollars and Cents	
Approximate Autopac claims incurred costs per working day:	$2.3 million
Total Autopac claims costs for injury and property damage, respectively (before expenses):	$173.3 million and $411.6 million
Amounts paid by Manitoba Public Insurance to Manitoba medical practitioners on behalf of customers:	$20.9 million
Commissions paid by Manitoba Public Insurance to independent insurance brokers for product sales:	$60.1 million
Grants-in-lieu of taxes paid to Manitoba municipalities by Manitoba Public Insurance:	$1.3 million
Provincial premium taxes paid by Manitoba Public Insurance:	$23.9 million
Estimated savings to policyholders through use of recycled parts:	$13.8 million
Estimated direct savings to policyholders through subrogation:	$13.7 million
Dollars invested in road safety programs:	$25.8 million

Significant Numbers	
Average number of Autopac claims reported to Manitoba Public Insurance per working day:	1,121
Total Autopac claims reported:	280,319
Bodily injury claims reported:	17,711
Property damage claims reported:	262,608
Total theft claims reported in Winnipeg:	5,110
Total theft claims reported elsewhere in province:	1,316
Independent Autopac broker outlets, as of February 29, 2008	310
Calls answered by Manitoba Public Insurance Call Centre:	1,078,290
Number of Autopac policies in force (average):	903,961
Licensed drivers in Manitoba in 2007:	767,371
Average weekly visits to www.mpi.mb.ca:	42,688

Five-Year Statistics	**2007**	2006	2005	2004	2003
Premiums Written ($000)	**842,053**	812,378	779,316	745,126	680,265
Claims Incurred ($000)	**618,399**	628,370	616,590	541,744	578,377
Number of Claims	**280,319**	269,135	253,080	255,804	243,401
Average Cost per Claim ($)	**2,206**	2,335	2,436	2,118	2,376
Claims Expense ($000)	**84,505**	79,850	78,586	75,068	75,900
Other Expenses ($000)	**194,879**	181,490	164,991	133,483	116,802
Income (loss) ($000)	**97,440**	68,388	105,809	79,521	37,263
Investment at Year-End ($000)	**2,181,838**	2,012,821	1,877,148	1,625,022	1,446,417
Total Assets ($000)	**2,570,939**	2,357,731	2,218,895	1,970,078	1,767,615

Board of Directors

(SITTING LEFT TO RIGHT)

Ed Arndt

Annette Maloney

Marilyn McLaren, Ex-Officio

(STANDING LEFT TO RIGHT)

Kerry Bittner, Vice-Chairperson

Mary Johnson

Manisha Pandya

Dale Paterson

Shari Decter Hirst, Chairperson

Daryl Reid

Message from the Chairperson

The transport of people and products takes on special importance in a province of such vast expanses. It isn't surprising that Manitobans lead the country when it comes to time spent behind the wheel, as Statistics Canada confirmed early in 2008.

And just as we rely on our motor vehicles, we rely on our public auto insurance system to be there when we need it most and evolve to meet our changing needs.

It's a challenge we embrace. As we state in our corporate values, "As our customers' needs and the business environment continue to change, so must we."

In 2007, after a period of improvements related to changes in driver and vehicle licensing, Manitoba Public Insurance once again ramped up to deliver more value to Manitobans in a number of new ways.

It was truly a time to reach out to Manitobans with plans for more service improvements, and to reach higher in our quest for excellence in all its forms.

Among the plans set in motion was a program of major capital improvements aimed at improving customer convenience. We began to convert our existing claims centres into full-service facilities that will allow customers to do more types of business with the corporation at one location. After successfully piloting this new service model at our claims centre in Winkler, we have paved the way for similar conversions all across the province.

As we made these plans for the future, we were heartened to see the benefits of initiatives we had begun in the recent past.

Among these successes was our impressive progress in reducing auto theft. Two years ago, when we introduced the Immobilizer Incentive Program, we promised Manitobans that we could defeat this serious safety problem – and in 2007 we delivered. By the end of the fiscal year, we were beginning to see a marked reduction in auto theft of all kinds, including attempted theft and partial theft. Thanks to immobilizers and intensive monitoring of chronic thieves, Manitoba is no longer the auto theft capital of Canada. And the positive effects of our efforts will only grow in 2008.

Most importantly, we continued to reach for new levels of excellence in our core business of auto insurance. Providing assistance and support when policyholders need it most is the most basic promise of any insurance company – and in 2007, we exceeded customer expectations once again. When a devastating hailstorm hit the Dauphin area, our commitment to service translated into quick mobilization of staff to deal with the deluge of claims.

Another important promise to policyholders is comprehensive coverage at an affordable price, and once again the corporation delivered. After a decade of rate stability, Autopac rates decreased for 75 per cent of policyholders in the 2007 insurance year. And for the third time in six years, Manitobans received another premium rebate, and the promise of another rebate in 2008.

We said we would deliver a better model for service centres that's more efficient and provides customers with more options. We have delivered. We have pledged to keep insurance rates among the most competitive in the country – and again we have delivered.

Of course, we cannot continue to meet or exceed these high standards of excellence without the hard work and dedication of our staff. I'd like to take this opportunity, on behalf of my colleagues on the Board of Directors, to thank the staff, management and business partners of Manitoba Public Insurance.

Without their efforts, any talk of reaching out and reaching higher remains just that – talk. Together with Manitobans, we're committed to making our shared future stronger.

Shari Decter Hirst
Chairperson of the Board

Executives

(SITTING LEFT TO RIGHT)

Marilyn McLaren,
President & Chief Executive Officer

Clarke Campbell, Vice-President,
Corporate Information Technology &
Chief Information Officer

Don Palmer, Vice-President,
Finance & Chief Financial Officer

Dan Guimond, Vice-President,
Business Innovation & Insurance Operations

(STANDING LEFT TO RIGHT)

MaryAnn Kempe, Vice-President,
Human Resources

Wilf Bedard, Vice-President,
Claims Operations & Service Delivery

John Douglas, Vice-President, Public Affairs

Kevin McCulloch, Vice-President, Corporate Legal
General Counsel & Corporate Secretary

Message from the President

The people of Manitoba Public Insurance realize that we have been entrusted with an important responsibility. We're running more than an auto insurance company; we're the stewards of a system that has become an important advantage of living and working in Manitoba.

Not everyone in Canada can count on comprehensive auto insurance coverage at an affordable price, with high standards of service and fairness. Although the strength and stability of our system is sometimes taken for granted, Manitobans deserve that peace of mind. That is why we protect this advantage by continually seeking higher standards of excellence in everything we do.

As a corporation, our journey in 2007 saw us pass many important milestones while setting our sights on even more:

- We entered our 10th year of holding the line on rates for most policyholders, something unheard of in the private system.
- We provided our third rebate in six years, this one totalling $60 million, with the promise of a fourth rebate in 2008. Together, these four rebates will total $263 million.
- By the end of the fiscal year, we experienced the largest drop in auto theft in Manitoba's history, thanks to our immobilizer program and the Winnipeg Auto Theft Suppression Strategy.

The impressive impact we had on auto theft was one of the most gratifying achievements of the year. There were almost 2,500 fewer vehicles stolen this year compared to last. The value of claims related to auto crime dropped by $11.7 million, and the number of vehicles in Manitoba protected by approved aftermarket immobilizers grew to almost 100,000.

We can only speculate on the number of innocent lives that may have been saved because Manitobans prevented reckless and uncaring car thieves from stealing these vehicles.

Of course, we can't declare victory yet. But these gains signal that the corporation's auto theft strategy will soon bring an end to this serious public safety problem.

From a business perspective, the declining auto theft rate is one of the factors allowing us to keep costs and rates low while we invest in service improvements for the future. In 2007, we were busy preparing for a number of innovations that will greatly add to the value of our products and services in the years ahead.

The rationale for creating the corporation back in 1971 was to provide motorists with access to protection against the economic costs of collisions that is fair, consistent and affordable. That is still our prime purpose today. We will continue to reach beyond those basics to guarantee that Manitobans enjoy the advantages of our public auto insurance system in the years ahead.

In this annual report you will read about many of these improvements, and examples of the outstanding service that Manitoba Public Insurance is bringing to our customers. We are reaching out, and reaching higher.

Marilyn McLaren
President and Chief Executive Officer

Reaching **Out**

George Klassen

REACHING OUT
to more communities

This year we launched a new service model and capital improvement plan that will provide more locations for claims and driver testing services. By improving access to these services, we're building on the convenient renewal system introduced in 2006.

More services at each location

In 2007 we began the next phase of service delivery improvements – the conversion of our existing claims centres into full-service facilities. The new model will double the number of locations for services like driver testing, bringing more full-time services within reach of more rural communities. Over the next two years, all of the corporation's claims centres will evolve to this model.

The concept was piloted successfully at the Winkler claims centre in 2007. As a result, customers in the region can now book driver testing appointments five days a week, all through the year, instead of having to wait for mobile testing units, which may only visit their communities a few days a month. They can also conduct a number of transactions during one convenient visit, including vision screening and commercial vehicle registration, as well as the usual estimating and claims adjustment services.

The service centre model builds on progress we made in 2006, when we made it possible for customers everywhere in Manitoba to renew both their insurance and their driver's licences with one trip to any of the more than 300 brokers across the province.

The conversion of claims centres to full-service centres will continue in Brandon in 2008, and roll out in Winnipeg in 2009.

"Wow – have we ever appreciated the changes at the Winkler Claims Centre since they converted to the full-service concept. For many in the community it is a service that has saved them both time and expense. At the Co-op, we used to take our specialized commercial vehicles to Winnipeg to get them licensed, but now we can do it right in Winkler. My personal experience has been that the staff have an excellent attitude. If they don't have the answer, they get it. We've been happy with the service."

George Klassen, Chair of the Board of the Winkler Community Development Corporation and General Manager of Winkler Consumers Co-op

Coming soon: New locations to serve you

As the new full-service model was being piloted in Winkler, Manitoba Public Insurance was finalizing another major service improvement plan – the construction of three new facilities in Winnipeg and one in Selkirk.

The new centres will be built in communities where demand for customer service is expected to grow. With the help of independent consultants, we determined that the demand for additional service will be highest in northeast Winnipeg and south Winnipeg, which have no claims centres today, and in central Winnipeg, where the busiest claims centre in the city has no room to grow.

As a result, the corporation will build two new locations in the northeast and south areas and replace the central claims centre with a new 28,000 square-foot facility farther north. We also plan to expand the Selkirk centre at a new convenient location within the next two years.

The expansion will increase the number of claims service outlets from 17 to 19. All of these facilities will also offer driver testing and other services.

All four of the new developments will be built to high environmental standards, minimizing the impact on our water and air. The new projects build on the success of our state-of-the-art, environmentally friendly facilities in Beausejour and Winkler, constructed almost four years ago. Those buildings have geothermal heating and cooling systems, and many other high-performance features.

Proposed site plan for a new claims centre in south Winnipeg.

Renata and Charles Zimmerman

LENDING A HAND

after the storm

When disaster struck Dauphin in August 2007, Manitoba Public Insurance moved quickly to help customers pick up the pieces. Staff mobilized into the community and set up an emergency claims centre to serve thousands of Manitobans when they needed it most.

Nearly 400 estimates daily

In the weeks following the hailstorm, close to 50 staff members from Winnipeg and other areas of the province worked 12-hour days, seven days a week, to make sure the people of Dauphin were well looked after.

The community had experienced one of the single biggest catastrophic events in the corporation's history, with more than 14,000 total claims exceeding $52 million in damages and expenses.

The town's Rotary Arena became a makeshift claims centre and a hub of activity as staff processed an average of 400 claims a day.

Although the 1996 hailstorm that roared through Winnipeg caused more damage (some 24,000 claims totalling $53 million), this was the first time the corporation temporarily relocated such a large number of staff in order to reach out to a smaller community.

Damage in Dauphin was severe. Write-offs after an average hailstorm typically run about 25 per cent. After the Dauphin storm they were 40 per cent.

"Making soup for everyone was one way of saying a big thank you for the excellent service we received. After our disaster with the hailstorm, we just couldn't get over how quickly and how hard everyone worked. We should have made at least one more lunch for them to show our appreciation!"

Renata Zimmerman, a resident of Dauphin who, with her husband Charles, provided a homemade soup lunch for emergency claims centre staff

Joining hands with the community

At 7 p.m. on that fateful night, Jeff Sass and his family were enjoying sundaes on their back porch under a sunny blue sky. Within an hour, the Parkland regional manager knew the rest of his summer was going to be much different.

"The sky went dark and then just opened up," Sass says. "It was the biggest hailstorm I've ever seen – by far."

Many of the hailstones that came down that night were the size of golf balls. Several were even as big as small potatoes.

"The first morning we started taking claims at the Rotary Arena, there were 100 vehicles in line at 6 a.m. waiting to get in," Sass says. "In three weeks, we did 4,500 estimates…I'm just amazed at what we did."

So were the people of Dauphin. Renata Zimmerman, 77, and her husband Charles, 82, were so impressed with the corporation's response to the hailstorm – and so concerned about staff at the temporary claims centre in Dauphin – that they made a couple of large pots of chicken soup, and then served it up to Jeff and his team.

Many of the hailstones that came down that night were the size of golf balls. Several approached the size of small potatoes.

THE AUGUST 2007 HAILSTORM, BY THE NUMBERS

8	Estimated duration (hours) of storm
12	Number of communities besides Dauphin where claims were made
14,029	Total claims
$3,900	Approximate average paid per claim
5,331	Number of vehicles written off
$52.1 million	Total losses incurred, including claims and emergency hail centre operating costs
$10 million	Total losses incurred, including claims and emergency hail centre operating costs, after reinsurance recovery

Bill Froese, Melany Lowen

COMPLETE COVERAGE

Every Manitoban can count on comprehensive coverage and fair compensation, delivered with compassion. It's the heart of the public auto insurance system.

Coverage that benefits all Manitobans

Simply by living in Manitoba, you're automatically covered under our Personal Injury Protection Plan in the event of a motor vehicle accident – anywhere in Canada and the United States. That's peace of mind that Manitobans have enjoyed since the plan was introduced in 1994.

Unlike private insurance, our system is free of discrimination on the basis of age, gender or marital status. And in Manitoba, customers aren't afraid to use the coverage they've paid for. More than half of the claims made in Manitoba are for damage under $1,000. In private insurance jurisdictions, drivers often hesitate to make these minor claims for fear that they will send their premiums skyrocketing.

Benefits and coverage tailored to your needs

The injury benefits provided by our Personal Injury Protection Plan are among the most comprehensive in Canada and the United States, and they are tailor-made to fit personal circumstances. Case managers work with clients and health care professionals to develop individual care plans and the best approaches to restore health and independence. Injury benefits are delivered automatically, without costly and lengthy lawsuits, so Manitobans can count on timely and predictable compensation.

When selecting coverage, customers can choose from a wide variety of options, including reduced deductibles, increased third-party liability limits and new car protection. In 2007 more than 80 per cent of customers mixed and matched options like these to individualize their coverage.

"The service I received from Manitoba Public Insurance was just phenomenal. And I tell that to anyone who'll listen. You hear about people being so adversarial, but I just couldn't imagine it. My case manager was incredibly helpful – it was like he was working for me. I was so grateful for every kindness, especially coming from an insurance company."

Melany Lowen

There for you when you need us most

When Melany Lowen's husband, Lloyd Johnson, was in a motorcycle accident in 2003, the last thing on her mind was tracking down phone numbers and calling Manitoba Public Insurance.

Her husband was in the intensive care unit with a severe brain injury and an uncertain prognosis.

"It was such a relief when Bill Froese, the case manager, called me," Lowen says. "You can imagine how distraught I was, but he was very calming. He met me in the cafeteria at the hospital and brought all the paperwork. That's what impressed me the most – I didn't have to go looking for him."

Sadly, her husband died in January 2008. Although he recovered enough to leave the hospital shortly after his accident, he never regained full function. Lloyd needed support with personal care and rehabilitation expenses and an income replacement indemnity.

"Bill pointed out everything that was available to me, and I actually had to say no to some of it because we didn't need it," Lowen says. "People would realize how insignificant insurance premiums are if they saw what happens when people need high levels of care."

AIMING HIGH
to keep your rates low

In 2007 we again provided rebates – our third in six years – totalling $60 million to 550,000 policyholders. The cheques equalled 10 per cent of what policyholders paid in Basic insurance premiums for the 2005/06 insurance year.

$263 million flowing back to you

Under the public auto insurance system, policyholders are like shareholders. So when Manitoba Public Insurance enjoys a strong financial performance, customers feel the benefits too.

All together, we've provided three rebates totalling $200 million to ratepayers over a six-year period. And in 2008, we will return our fourth rebate, this time estimated to be $63 million.

But rebates aren't the only benefits of public auto insurance. During the past decade there have been no rate increases for most drivers. That's the kind of rate stability Manitobans expect and deserve from their public insurance system.

In 2007 Manitoba Public Insurance continued to boast some of the lowest operating costs per policy of any insurance company in Canada. We consistently operate at about half the cost of other insurers.

At the end of the day, we return nearly 100 per cent of every Basic Autopac premium dollar to Manitobans in the form of claim benefits.

Now and in the future – you're covered

You can count on your public auto insurance system to be strong and stable because we manage our finances wisely. We set aside funds for current and future claims costs, and to provide a cushion against unforeseen events that could cause sudden rate increases.

For nearly four decades the public auto insurance system has delivered as promised – providing comprehensive insurance at an affordable price – and with none of the coverage reductions that customers have seen in other provinces.

We will continue to focus on cost containment and financial stability. And Manitobans can continue to expect the best auto insurance value in Canada.

BY THE NUMBERS

$60 million	Rebates to customers in 2007
$263 million	Total rebates returned to Manitoba ratepayers since 2001
94	Cents of every Basic premium dollar returned to Manitobans in the form of claims benefits
$139.1 million	Investment income earned
$96.51	Average amount per policy that Basic premiums are reduced because of investment income
49.2%	Manitoba Public Insurance's operating costs for Basic insurance compared to the industry average
$9 million	Savings resulting from fraudulent claims investigations this year
$13.8 million	Estimated savings to policyholders through use of recycled parts

94%

Returned to Manitobans in 2007

64%

Typically returned by other insurers

In 2007, about 94 cents of every Basic premium dollar was returned to Manitobans in the form of claim benefits. Other insurers returned an average of about 64 cents per premium dollar. The corporation's low operating costs make this difference possible.

GAINING GROUND on auto theft

Manitoba's sustained campaign against auto crime saw thefts decline in 2007, signalling that the end of the epidemic is within our grasp. That translates into safer streets, reduced claims costs and continued low rates.

Making our streets safer, one immobilizer at a time

The cost of auto theft is more than financial. Society bears the burden of an overtaxed justice system, and young people's lives are ruined by choosing a life of crime. More importantly, the reckless actions of car thieves exact a terrible toll on public safety.

For the past three years, Manitobans have been engaged in an intensive effort to control the province's rising auto theft rate and keep our streets safe. Our efforts began to pay off in 2007, with a 26 per cent decline in province-wide total thefts from 2006. Remarkably, all types of auto crime were down, including attempted thefts, partial thefts and vandalism.

Much credit for our progress rests with the widespread use of aftermarket immobilizers, which in September 2007 became mandatory for the types of vehicles that are at the highest risk of being stolen in this province.

Building on our voluntary incentive program, the Manitoba government announced in July that these "Most-at-Risk" vehicles would need to be protected by approved immobilizers before their registration and insurance could be renewed.

Helping vehicle owners comply with the new law became a major undertaking for the corporation. We paid standard immobilizer installation costs for all vehicles on the mandatory list, and helped owners schedule the work in time for their renewal dates.

By the end of the 2007 fiscal year, almost 40,000 more immobilizers had been installed, bringing the total number of aftermarket installations in Manitoba to nearly 100,000. When combined with the growing number of factory-protected vehicles, almost half the vehicles on Manitoba roads are now equipped with immobilizers, the best theft protection available.

"What happened to me after the accident is indicative of the Winnipeg spirit. The other runners who found me, the police, the emergency and medical services people, and those who handled my case at Manitoba Public Insurance – all of these people have been overwhelmingly supportive."

Kelly Van Camp

When innocent people pay the price

It was a nearly lethal act that shocked the city. On a crisp morning in March 2007, joyriding car thieves took the senseless crime to a new level as they targeted runners on Winnipeg's popular Wellington Crescent corridor.

Kelly Van Camp, 50, was out on a regular 10-kilometre run as part of his training for the Manitoba Marathon.

"I saw this car coming around the corner, and it was speeding – so I kept my eye on it. Just as they were going past me, they swerved at the very last minute and hit me. There was no time to react. I only remember coming down on the hood and thinking, 'Why are they doing this?'"

Van Camp has little recollection of what happened next. He was found disoriented and covered in blood by other runners, who phoned an ambulance. He had two fractured cheekbones, a broken nose, another broken bone around his eye and a broken ankle.

Three youths were subsequently arrested but never charged.

"It's too bad that immobilizers are necessary, but auto theft isn't going to go away by itself," he says. "And in some hands, cars are lethal weapons to be aimed at innocent people."

Total Thefts – Province

Quality control means reliable theft protection

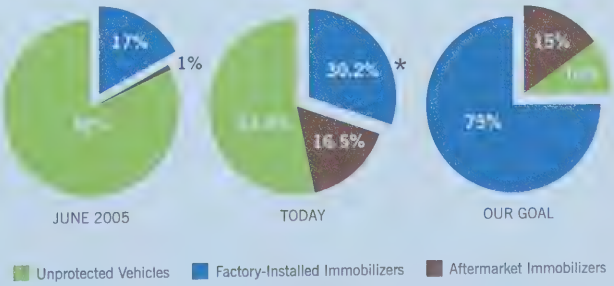
In 2007, the immobilizer industry and Manitoba Public Insurance joined forces to put in place a strong quality-control program to help ensure that immobilizers are trouble-free. Among the benefits is a mobile service that repair facilities can call when they're working on a vehicle with an immobilizer. The mobile service helps the mechanic work around the immobilizer properly, and checks to make sure that everything is in good working order before the vehicle is returned to the customer.

WATSS continues to keep crime at bay

The second major cause of the declining theft rate is the Winnipeg Auto Theft Suppression Strategy (WATSS), which receives ongoing funding from Manitoba Public Insurance. By intensively monitoring the worst repeat offenders, the program has been extremely successful in preventing theft attempts. The benefits seem to be extending beyond auto theft, helping to reduce other types of youth crime.

Closing the Gap on Auto Theft

(Total Vehicles in Winnipeg)



* Percentages may not total 100 due to rounding.

OUTREACH PROGRAMS

An educated driver is any vehicle's most effective safety device. With our partners throughout Manitoba, we reached more people than ever in 2007 with our education and awareness programs. For example, last year our summer students with the Safety on Wheels program touched every part of the province, making 166 presentations in 77 communities.

Working together to reduce risk

Manitoba Public Insurance uses a variety of approaches to educate Manitobans on everything from the lifesaving properties of seatbelts, to the importance of properly installing child car seats.

And Manitobans continue to support the corporation's focus on road safety. Nine out of 10 people believe we should be involved in efforts to make driving safer in the province.

In 2007, we restructured some of our operations to forge stronger linkages between driver testing and driver education, and to lay the groundwork for even more effective programs in the future. It's another way we are making the most of the merger of driver and vehicle licensing services, which began in 2004.

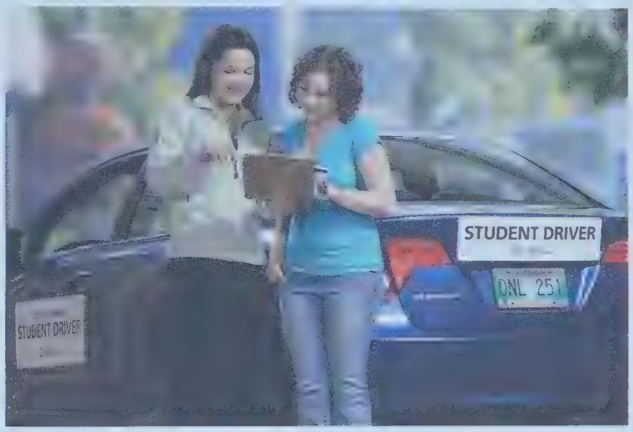
The educational tools we employ are numerous: the ever-popular 60-Second Driver segment on the evening news, bicycle rodeos, mini car towns, air bag demonstrations, and child car seat clinics, to name a few. We're reaching out to all road users, whether it's children on bicycles or seniors on motorcycles.

Our support of school patrol programs, RoadWatch impaired driving checkstops, and our SpeedWatch speed reader boards all help to keep our streets and highways safer.

"I'm really looking forward to working with Manitoba Public Insurance again this year as a summer student. It was such a great experience last year! We got to travel all across Manitoba, meet so many different people, and really reinforce the importance of road safety at each event we took part in. The rollover simulator, mini car town and bike rodeos we do are very effective ways for helping to get the safety message across."

Tara Lambert

Training a new generation of drivers



Driver Education is one of the biggest road safety initiatives the corporation sponsors. In the 2006/07 school year, we equipped 11,550 young people with the knowledge and skills they need to stay safe behind the wheel.

Some 300 instructors at more than 170 high schools across the province provide in-class instruction, behind-the-wheel training and in-car observation. Novice drivers learn the latest road safety information that helps them become safer drivers.

One of our more popular driver education programs is the Driver Ed Challenge, our annual contest that lets teenagers test their driving knowledge and skills. In 2007/08, the fifth annual event attracted more students than ever. There were 1,125 entries, an increase of more than 150 over last year.

...mmunity-based crime prevention program ... which ordinary citizens help to reduce crime by watching over their communities.

...ont left) organized a Citi... group for her inner-city community of St. John's. Today, she and almost 20 other volunteers are a visible presence in their neighbourhood – helping reduce auto theft and other crime. From left to right, St. John's residents: Rebecca Hutchings, Wayne Matthews, Richard Cooke and Davina Walker.

Bob Dolyniuk

HELPING MANITOBANS

One advantage of being a public auto insurer is the ability to build strong partnerships that add value for our customers. We work with many partners in the industry and community to increase the quality of repairs, fuel our economy and create new opportunities for Manitobans.

Keeping the trucking industry moving

In April 2007, Manitoba Public Insurance announced a new training initiative aimed at sustaining Manitoba as a national leader in the commercial trucking business. By the end of the fiscal year, the new Entry Level Professional Truck Driver Training Program was ready to accept applications from Manitobans looking for promising careers in the industry.

Job opportunities in this rewarding field are growing in Manitoba like never before. But there just aren't enough professional drivers to meet the demand.

Manitoba Public Insurance is dedicated to supporting our Special Risk Extension customers and the Manitoba trucking industry.

This program offers a solution by providing 100 per cent tuition funding to qualified candidates and supporting the training efforts of participating trucking companies.

The comprehensive training plan was developed and funded by Manitoba Public Insurance with input from members of the local trucking industry and the Manitoba Trucking Association.

"We're really excited about the new Entry Level Professional Truck Driver Training Program, and grateful that Manitoba Public Insurance has taken a leadership role in developing and funding it. We are also extremely enthused to know that this program is based on the Entry-Level Professional Driver Occupational Standard, developed by the Canadian Trucking Human Resources Council."

Bob Dolyniuk, General Manager, Manitoba Trucking Association

A new generation of auto repair excellence

Well-qualified tradespeople are an essential ingredient for quality repairs after a collision. That's why we're an enthusiastic supporter of Skills Canada Manitoba, a non-profit organization whose mandate is to raise the image and awareness of skilled trades and technology to Manitoba youth.

In 2007 the corporation donated a total of $4,000 in scholarships to the first-, second- and third-place medalists in the Auto Collision Repair Technology and the Auto Service categories of the Skills Manitoba Competition.

By sponsoring auto repair competitions and scholarships, the corporation promotes excellence in the sector and encourages young people to pursue careers in the automotive trades. Their enthusiasm helps keep the industry well supplied with talent to meet Manitobans' auto repair needs.

Three autobody students are currently training to become claims estimators for the corporation. From left to right: Leslie Massey, 25, Sabrina Campbell, 24, and Takahiro Fujiwara, 26.

"A couple of years ago I was working in the trade and heard about the corporation's Estimator Training Program. I went for an interview and decided I wanted to try it out. I really like it. You get the time to learn how to do things the right way – they're always shooting for the highest standards here."

Sabrina Campbell

REACHING FOR

Manitoba is our home, and we care about keeping it clean and green. We're continuing to build environmental stewardship into our business to protect air and water for future generations.

Ensuring our buildings are kind to the environment

Protecting the environment isn't just good for the planet, it's good for the bottom line, too.

We're keeping that truth in mind as we prepare to upgrade and expand our facilities over the next two years. All four of our new developments planned for Winnipeg and Selkirk will meet internationally recognized standards for energy consumption and emissions.

These newest developments will follow the lead of our geothermal-heated claims centres in Beausejour and Winkler.

We're also improving our existing facilities. In 2007, the St. Mary's Road claims centre became the first building in Manitoba to receive top-tier Go Green Plus certification from the Building Owners and Managers Association (BOMA) of Canada, an affiliate association of BOMA International. And we've quickly made the necessary improvements to receive our second Go Green Plus certification, this one for our claims centre on King Edward Street. In the years ahead we will seek Go Green Plus certification for our other Winnipeg centres and the Physical Damage Centre on Plessis Road.

Being green keeps your rates low

At Manitoba Public Insurance, reducing, reusing and recycling are important cost-containment strategies, as well as revenue sources.

For example, we auction written-off vehicles to the public and automobile parts recyclers. In this way, we reduce the number of wrecks heading to the scrapyard while generating a source of income.

All sorts of recyclable material, from Freon to fuel, is collected from total loss vehicles for reuse. In our office operations, we are now collecting 80 per cent of recyclable material, and we are diverting more than 50 per cent of the waste we create from landfills.

We also encourage the use of quality recycled parts in claims repairs as a way of keeping costs down while keeping the quality of repairs high. In 2007, we saved policyholders an estimated $13.8 million by using recycled parts.

"The claims centre on St. Mary's Road is the first building in Manitoba to obtain the BOMA Go Green Plus Certification, and BOMA Manitoba applauds Manitoba Public Insurance for its commitment to energy efficiency and sustainability. The corporation has long been a leader on the sustainability front, and its decision to seek Go Green Plus Certification for its other Winnipeg claims centres demonstrates this. It understands what environmental stewardship is all about; BOMA is proud to have the company as a member."

Glenn Cayer, President, Building Owners and Managers Association, Manitoba chapter

Fair Practices Office

The Fair Practices Office (FPO) is a means for customers and other interested parties to bring issues of a systemic nature to the attention of the corporation. The office was created in 1999 to encourage continuous improvement in all aspects of our public auto insurance system, particularly those aimed at ensuring fair and appropriate service to customers.

The FPO generally deals with concerns related to corporate policy, or issues involving complex or unusual situations where the correct interpretation of policy may seem unclear. The office may initiate its own investigations or respond to inquiries referred by others. It is free to scrutinize the corporation's policies and procedures in an objective and constructive manner.

The office reports its observations directly to the President and Chief Executive Officer. It can recommend review of an issue and alerts senior management of any systemic concerns or policies that should be addressed.

Many of these matters are referred to the FPO by the provincial Ombudsman. Inquiries may also be referred by the Customer Relations unit, which deals primarily with individual customers, staff and the office of the minister responsible for Manitoba Public Insurance.

When Customer Relations requests a separate review, the FPO takes a fresh look at the situation to ensure that all information and details have been considered.

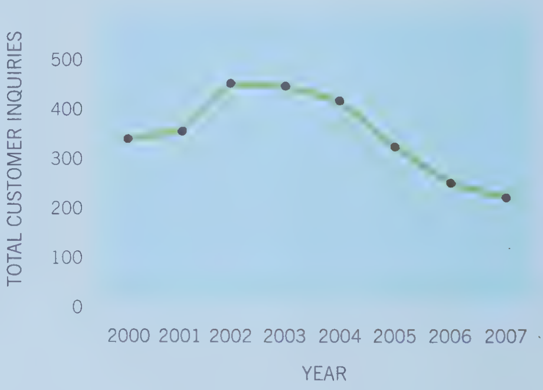
The number of inquiries handled by the FPO has declined in recent years – due in part to improved processes for escalating concerns and identifying duplicate inquiries. As a result, more individual customer concerns have been successfully resolved without the involvement of the FPO.

2007 results

In the 2007/08 fiscal year, the FPO received 219 documented customer inquiries from the following referral sources:

Customer	86
Formal Ombudsman inquiries	31
Informal Ombudsman inquiries	82
Internal referrals	20

The FPO recommended the corporation revise its decision in 16 situations, or about seven per cent of the cases it reviewed. In 93 per cent of the situations that were examined (203 of 219), the FPO's findings supported the original decision.



MANAGEMENT DISCUSSION & ANALYSIS

Corporate Profile

Corporate Vision

Manitoba Public Insurance will be a leader in automobile insurance and driver services, providing Manitobans with guaranteed access to superior products, coverage and value. We will anticipate and meet the evolving needs of Manitobans. We are dedicated to offering province-wide accessibility and, in co-operation with our business partners, will perform at the highest attainable levels of economy, efficiency and effectiveness.

Manitoba Public Insurance will make our roadways and communities safer by enforcing standards for drivers and vehicles, by raising awareness of the inherent risk of driving and by investing in lasting solutions. We will develop educational programs and controls that help and encourage Manitobans to acquire the skills to avoid collisions.

Our people will deliver knowledgeable service with care, efficiency and justifiable pride, and will be appropriately recognized for their contributions in helping the corporation achieve its goals. Manitoba Public Insurance will be one of the best and most inclusive places in the province to work and pursue a career, where people will deliver knowledgeable and caring services in new and innovative ways.

We will ensure Manitobans understand and support the unique contribution Manitoba Public Insurance makes to the province of Manitoba.

Corporate Goals, Measures and Strategies

Manitoba Public Insurance strives to achieve seven broad Corporate Goals. Expected outcomes are measured and five-year key strategies have been developed to reflect and address the current realities of the corporation's marketplace and public environment, and to meet various stakeholder expectations and obligations. Several of the strategies, while presented in support of a particular Corporate Goal, also support other Corporate Goals. Manitoba Public Insurance's Corporate Goals, Measures and Strategies are as follows:

GOAL 1

Universally available mandatory protection against the cost of automobile accidents. Rates, on average, will be lower than those charged by private insurance companies for comparable coverage and service.

STRATEGIES

1.1 Basic automobile insurance – to ensure that the basic, compulsory program meets the needs of Manitoba motorists for affordable, accessible and comprehensive coverage.

1.2 To keep all controllable costs at their lowest possible level through continuous focus on savings in claims, service delivery and operating costs.

1.3 To improve the efficiency and convenience of Manitoba Public Insurance's distribution and service network by reducing or eliminating low value transactions.

1.4 To the maximum extent possible, leverage synergies offered by strategic partners that are mutually beneficial, improve customer service and reduce costs.

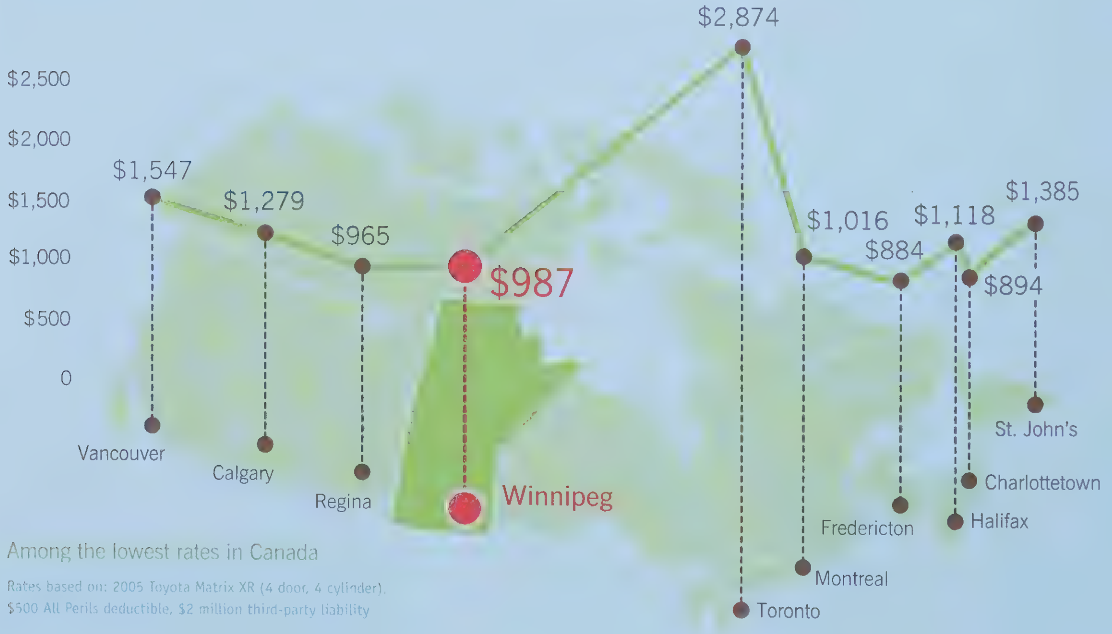
1.5 To increase the percentage of revenue derived from investment income while remaining within acceptable investment risk profiles.

1.6 To create and maintain an information technology environment that is efficient, adaptable, expandable and current to capitalize on opportunities. We will use economies of scale, new technology and existing capabilities to improve customer service or reduce costs.

1.7 We will develop systems that leverage technologies and processes across divisions providing the greatest corporate benefit possible.

1.8 To maintain the Basic Insurance Rate Stabilization Reserve to protect vehicle owners from rate increases caused by unexpected events and losses resulting from non-recurring events or factors.

MEASURE



Among the lowest rates in Canada

Rates based on: 2005 Toyota Matrix XR (4 door, 4 cylinder). $500 All Perils deductible, $2 million third-party liability

GOAL 2

The Basic plan will return at least 85 per cent of premium revenue to Manitobans in the form of claims benefits.

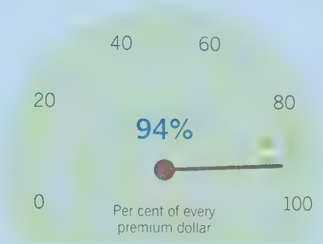
STRATEGIES

2.1 To maintain operating costs at a maximum of 50 per cent of industry average.

2.2 To break even over the long term on Basic automobile insurance.

2.3 To use investment income to reduce the average premium paid by Manitobans.

MEASURE



Premium returned for each dollar earned

GOAL 3

Manitoba Public Insurance will be a leader in automobile insurance and vehicle and driver licensing, providing Manitobans with superior products, coverage and service. The corporation will utilize technology to provide products and services that will enhance the value it delivers to Manitobans.

STRATEGIES

3.1 To ensure Manitobans receive understandable information on Manitoba Public Insurance products, entitlements, services and service standards. The corporation will adopt a strategy that ensures information reaches the appropriate target groups at appropriate times.

3.2 Autopac Extension – to be profitable by providing products and services that continue to recognize the changing needs of our customers and continue to successfully achieve high levels of customer satisfaction through strategic pricing, accessibility, and convenience. To mitigate risk through appropriate product design and automated underwriting techniques.

3.3 Special Risk Extension – to be profitable by responding to the variable and specialized needs of our commercial customers and providing personalized auto-related insurance products that cannot be met by the universal, compulsory program or by the automobile extension program. To partner with customers in pursuing fleet safety and loss prevention initiatives. To provide Manitobans with a stable market choice that promotes long-term partnerships.

3.4 To leverage the existing service delivery model to meet customer demands, focus the number of interactions with customers and increase accessibility and convenience.

3.5 To expand the value that the corporation provides Manitobans by capitalizing on the effectiveness of its technology and distribution channels to develop innovative solutions that benefit its customers in a cost-effective manner.

3.6 To improve the service relationship between drivers and vehicle owners and the corporation by modernizing business processes and ensuring all aspects of driver risk rating are consistent, clear and fair.

MEASURE

Corporate Performance Index

GOAL 4

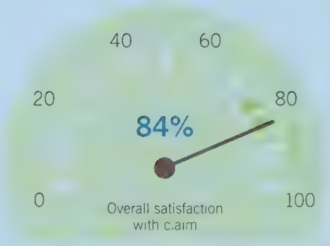
Manitoba Public Insurance will provide service that is responsive, fair, courteous and convenient. Manitoba Public Insurance will meet corporate customer service standards that are based on customer expectations.

STRATEGIES

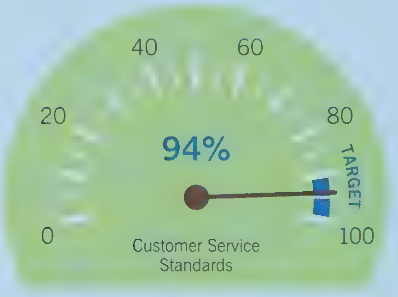
4.1 To create, publish and comply with comprehensive customer service standards for ourselves, brokers, business associates and service providers who are in contact with our customers.

4.2 To promptly address and respond to legitimate concerns expressed by our customers. To provide internal and external appeal mechanisms.

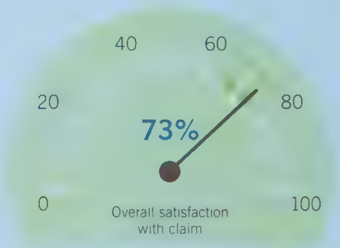
MEASURES



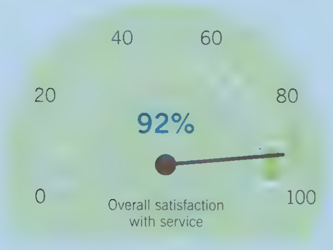
Physical Damage Claims



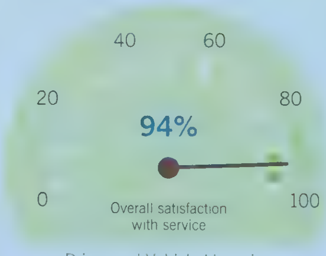
Overall, how often we meet/exceed standards



Bodily Injury Claims



Insurance Operations Policyholder Transactions



Driver and Vehicle Licensing

GOAL 5

Retained earnings and Rate Stabilization Reserve will be maintained within established target levels.

STRATEGIES

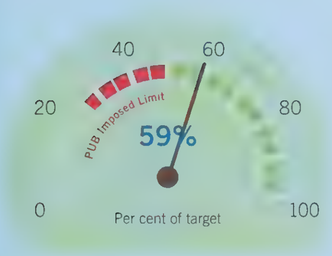
5.1 To maintain financial stability by setting appropriate premium rates, strengthening investment income and maintaining retained earnings and Rate Stabilization Reserve within established target levels.

5.2 To continuously identify and assess the likelihood and magnitude of potential risks and act explicitly to avoid and mitigate such risks.

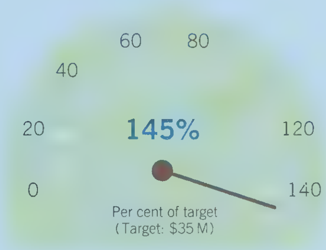
5.3 To develop business strategies to ensure competitive lines of business are profitable and contribute to the benefit of all Manitobans.

5.4 To assess corporate financial risk in keeping with industry standards and establish appropriate retained earnings and Rate Stabilization Reserve target levels for each line of business.

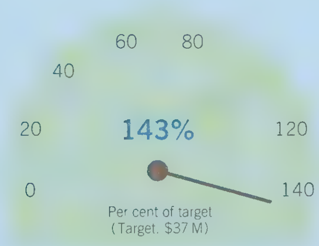
MEASURES



Basic Rate
Stabilization Reserve



Extension Retained Earnings



SRE Retained Earnings

GOAL 6

Manitoba Public Insurance will offer an environment and career opportunities that will encourage employees to strive for excellence. Our people will be treated with respect and fairness and their contributions will be recognized.

STRATEGIES

6.1 To foster a culture accepting of diversity. To attract, recruit, train and motivate target group candidates throughout the corporation. To build positive relationships within the Aboriginal community and to encourage employee involvement in this endeavour. To remove systemic barriers that might impede our progress toward these goals.

6.2 To continue to respond to the issues raised by our employees. Particular emphasis will be given to providing clear direction and fostering a management style that reflects our values and supports employee commitment to the organization.

continued on next page...

GOAL 6 (continued)

Manitoba Public Insurance will offer an environment and career opportunities that will encourage employees to strive for excellence. Our people will be treated with respect and fairness and their contributions will be recognized.

STRATEGIES

6.3 To use change management strategies that ensure communication, education and employee training support and facilitate business change.

6.4 To ensure employees are provided with effective, informative and timely two-way communication.

MEASURE

Employee satisfaction

GOAL 7

Manitoba Public Insurance will lead driver and vehicle safety initiatives that reduce risk and protect Manitobans, their streets and their neighbourhoods. Manitobans will recognize the corporation is living its mission.

STRATEGIES

7.1 To ensure Manitobans meet and continue to maintain established standards of knowledge, skill and behaviour to gain access to Manitoba roads.

7.2 To ensure vehicles and vehicle repairs meet provincial standards of mechanical soundness.

7.3 To develop strategies and initiatives that support continuous vehicle and driver performance monitoring to ensure Manitoba roads remain safe for everyone.

7.4 To develop a clear and understandable method to reward good drivers and ensure that individuals pay insurance rates that reflect the risk they represent on the road.

7.5 To develop and manage education and awareness initiatives based on factors that contribute to automobile accidents and the actions Manitobans can take to prevent them.

7.6 To partner with community groups across Manitoba supporting community-based initiatives that increase road safety awareness and education opportunities.

MEASURE

Road safety activities

Results of Operations

Current Year and Last Year

CORPORATE

Total earned revenues increased by 3.8 per cent to $869.7 million in 2007/08 fuelled by an expanding economy, which helped boost the number and value of vehicles insured in Manitoba and contributed to increased investment income. Overall, net income from annual operations of $97.4 million was $29.1 million higher than the previous year.

The corporation's financial performance was also enhanced as overall claims costs dropped $3.0 million as the average Autopac (Basic and Extension) cost per claim decreased by $127 to $2,087 although the total number of claims filed increased by 4.2 per cent to 280,319. Meanwhile, customer service improvement initiatives contributed to an increase in expenses of $11.0 million.

Earned revenues increased by $32.0 million, which is mainly attributable to increases in the number and value of vehicles insured. Investment income increased 4.3 per cent ($5.1 million) to $125.5 million. Income from the corporation's equity portfolio increased to $53.5 million as the gains on the sale of equities increased $13.6 million. Income from the bond portfolio fell by $15.3 million to $72.0 million as the gains on the sale of bonds declined by $20.1 million.

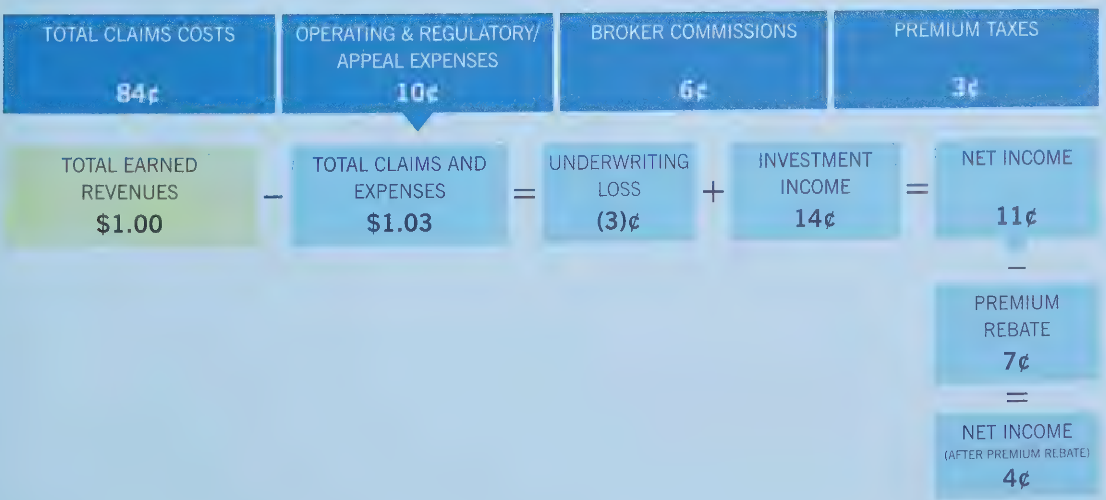
Claims costs decreased by $3.0 million or less than one per cent from the previous year. While the number of Personal Injury Protection Plan (PIPP) claims remained constant in 2007/08, the average cost of these claims fell by 8.7 per cent and the total bodily injury claims incurred decreased by 10.2 per cent. Physical damage claims incurred increased by 2.8 per cent as the decline in the number and cost of auto theft claims was offset by increased damage caused by severe weather-related claims.

The corporation's current year financial results were also impacted by a 10 per cent rebate on 2006/07 Basic Autopac premiums totalling $62.7 million ordered by the Public Utilities Board (PUB).

The corporation's financial mandate is to break even over the long term. During the reporting period, for every dollar of revenue earned, the corporation provided Manitobans with 84 cents in claims benefits. Broker commissions and premium taxes accounted for nine cents of every dollar of revenue earned, while other operating expenses including regulatory and appeal expenses cost 10 cents. These expenses were offset by investment income equal to about 14 cents per dollar of revenue. After the premium rebate, the corporation's net income was about four cents for every dollar of revenue earned during the year.

Total earned revenues of $869.7 million included a $21.0 million recovery from the Province of Manitoba for funding driver and vehicle operations during the current year. This transfer is $0.5 million higher than last year when the Province held back funds to defray its costs associated with aligning the renewal of driver's licences with motor vehicle registrations.

Where Your Premium Dollar Has Gone



Development on prior years' claims was better than expected. As a result, claims incurred decreased by $62.5 million for the year. In 2006/07 development on prior years claims was also better than expected, decreasing claims incurred by $60.6 million.

While the average Autopac (Basic and Extension) claims costs declined in 2007/08, the number of claims filed increased by 4.2 per cent to 280,319.

Total corporate expenses increased by $11.0 million to $169.1 million as the corporation continued to integrate driver and vehicle licensing operations and invest in customer service improvements made possible by the October 2004 merger.

BASIC

Net income from annual operations of $69.0 million was more than 44 per cent higher than in 2006/07. Total earned revenues increased by $20.8 million to $682.7 million, as the number of policies in force at year-end increased to 887,234 from 854,736.

Total claims costs – including claims payouts and handling, loss prevention and road safety expenses – decreased $3.3 million to $623.0 million. The total number of claims filed increased by 11,184 to 280,319. PIPP claims costs decreased by $17.4 million compared to the previous year. The severity of these claims declined by $218 to $2,295.

Physical damage claims costs increased by $8.9 million to $353.3 million. There were 2,779 more crashes this year and the average cost per claim increased a percentage point to $1,647. The 146,568 collision claims boosted costs by $6.9 million. Comprehensive costs – which include primarily glass, weather-related, theft and attempted theft claims incurred – rose by $0.8 million. Glass claims incurred rose marginally by $0.3 million. Weather-related claims costs included approximately $51.2 million from a severe hailstorm that struck Dauphin and other Manitoba communities on August 9 and 10, 2007, which resulted in about 14,000 claims. The corporation holds reinsurance coverage against this loss that will limit its exposure to $10.0 million. Basic's share of this severe hailstorm was $8.9 million.

The Immobilizer Incentive Program (IIP) and Winnipeg Auto Theft Suppression Strategy (WATSS) are having a significant positive effect on theft claims as total theft claims costs decreased by $7.5 million or 22.5 per cent, attempted theft claims costs fell by $2.1 million or 16.7 per cent, and partial theft claims costs decreased by 47.2 per cent or $2.2 million.

Years Ended February 29/28

Type of Claim	2008	2007	2006	2005	2004
Chronic pain	**39**	59	61	46	66
Fatal	**159**	161	144	157	139
Brain damage	**86**	74	80	69	97
Quadriplegic	**5**	1	3	4	3
Paraplegic	**6**	14	9	5	8
Broken bones	**785**	837	728	703	811
Whiplash	**15,173**	14,508	12,725	12,490	12,249
Bruising/Lacerations	**707**	610	539	692	871
Other	**751**	1,179	1,531	1,510	1,449
Total	**17,711**	17,443	15,820	15,676	15,693

Basic's share of the corporate investment income increased by $4.7 million to $108.8 million. This increase reflects higher gains realized from the corporation's equity portfolio.

Years Ended February 29/28

Basic Autopac Five Year Statistics ($000)	2008	2007	2006	2005	2004
Premiums Written	**675,762**	654,800	631,693	605,939	558,378
Claims Incurred	**525,287**	534,860	520,962	457,221	513,548
Claims Expense	**73,146**	68,965	67,169	65,270	67,043
Other Expenses	**123,963**	114,330	103,923	92,243	87,768
Net Income	**69,040**	47,783	85,703	59,943	3,358

EXTENSION

Extension net income of $24.1 million was offset by a $11.7 million loss resulting from the operation of driver and vehicle licensing functions. Operations reported net income of $12.4 million, $9.1 million more than reported last year.

During 2007/08, the corporation incurred expenses of $31.9 million to operate driver and vehicle licensing services, integrate administrative functions and prepare for customer service improvements. A $21.0 million recovery from the Province of Manitoba was received to partially offset these costs.

Earned revenues from the sale of extension products increased by $9.7 million to $109.3 million. All products contributed to the increase. Total claims costs – including claims benefits, claims handling, loss prevention and road safety expenses – decreased $1.2 million to $68.7 million. Physical damage claims costs increased by $0.7 million, exhibiting the same trends as the Basic line of business. Injury claims decreased by $2.0 million due primarily to decreased severity.

Higher gains on the corporation's equity portfolio increased Extension's share of the corporate investment income by $1.7 million to $9.2 million.

Years Ended February 29/28

Extension Five Year Statistics ($000)	2008	2007	2006	2005	2004
Premiums Written	**110,618**	100,754	92,205	85,751	73,182
Claims Incurred	**59,621**	60,925	55,786	53,449	46,425
Claims Expense	**7,988**	7,868	7,854	7,120	6,255
Other Expenses	**58,710***	55,144*	49,753*	29,377*	18,015
Net Income	**12,351**	3,235	9,168	7,129	8,001

* Includes expenses related to driver and vehicle licensing functions, which were transferred to Manitoba Public Insurance from the Manitoba government in October 2004.

Years Ended February 29/28

SRE Five Year Statistics ($000)	2008	2007	2006	2005	2004
Premiums Written	**55,673**	56,824	55,418	53,436	48,705
Claims Incurred	**33,491**	32,585	39,842	31,074	18,404
Claims Expense	**3,371**	3,017	3,563	2,678	2,602
Other Expenses	**12,207**	12,016	11,315	11,863	11,019
Net Income	**16,049**	17,370	10,938	12,449	25,904

SPECIAL RISK EXTENSION

Net income decreased $1.3 million to $16.0 million.

Total claims costs, including claims expense and loss prevention and road safety expenses, increased by $1.4 million to $37.0 million. Physical damage claims increased by $2.2 million due to both increased frequency and severity. Liability claims decreased by $1.3 million due mainly to decreased severity. Increased claims expense and loss prevention and road safety costs of $0.5 million also contributed to the total rise in claims costs.

Special Risk Extension's share of corporate investment income decreased by $0.9 million to $8.4 million as its share of the funds available for investment declined.

Investment Income

Manitoba Public Insurance invests money it sets aside for future claim payments and other liabilities. Investment income reduces rates that would otherwise be payable by policyholders. The revenue earned from investment income was enough to reduce the average Basic premium in 2007/08 by $96.51.

The total current value of the corporation's investment portfolio was $2.2 billion as of February 29, 2008. The bond portfolio, which accounts for 74.6 per cent of the investment portfolio, is invested in three types of bonds:

- Marketable bonds, mainly issued by the governments of Manitoba and other provinces, including floating rate notes (41.6 per cent of the total portfolio market value);
- Non-marketable bonds issued by Manitoba municipalities, school divisions and health care facilities and purchased through the Manitoba Department of Finance (20.0 per cent); and
- Real return bonds providing returns linked to the rate of inflation and issued by the Government of Canada and provinces (13.0 per cent).

Manitoba Public Insurance contracts five external investment managers to administer its Canadian equity portfolio, which represents 15.3 per cent of the total investment portfolio. The corporation also has 3.9 per cent of its portfolio in United States equities managed by two external investment managers. Through the Manitoba Department of Finance, the corporation uses forward contracts to offset the effect of currency movement changes on its U.S. dollar denominated assets. Short-term investments account for 5.8 per cent of the investment fund, and venture capital and private equity investments represent 0.3 per cent of the portfolio's carrying value.

The total portfolio, on a market value basis, returned 4.0 per cent during the fiscal year. Unrealized losses of $26.8 million, which are included in the Accumulated Other Comprehensive Income, contributed to the lower return on investments. Marketable bonds returned 4.8 per cent, non-marketable bonds 6.9 per cent, floating rate notes 5.0 per cent and real return bonds 3.5 per cent. Canadian equities returned 3.4 per cent over the same time period, and U.S. equities declined by 12.9 per cent, including the currency hedge. Over a four-year period, the investment portfolio has achieved an annualized return of 6.9 per cent. Total investment income for the year, net of impairments, was $125.5 million, including bond interest payments, dividends and realized gains on sales of bonds and equities.

Retained Earnings

Corporate retained earnings are comprised of the accumulation of net income or losses from inception to February 29, 2008 for the Basic, Extension and Special Risk Extension (SRE) lines of business.

The corporation's Board of Directors has approved risk-based capital adequacy target levels by line of business to maintain financial stability. In addition, specific levels of retained earnings have been appropriated to support two major corporate initiatives:

- The Immobilizer Incentive Strategy – a program designed to protect at-risk vehicles from theft; and
- The Extension Development Fund, which was established to defray the costs of projects undertaken to maximize the opportunities presented by the 2004 merger of Manitoba Public Insurance and the Division of Driver and Vehicle Licensing.

The corporation supports the use of the Minimum Capital Test (MCT) as a risk-based method developed by the Office of the Superintendent of Financial Institutions (OSFI) to assess the corporation's financial risk and determine the capital adequacy of reserves held in retained earnings. This methodology assigns risk factors to the company's assets and policy liabilities. It is used to determine whether federally regulated property and casualty insurance companies are maintaining adequate capital to absorb unexpected losses. OSFI expects these regulated companies to establish a target capital level, and maintain ongoing capital, no less than the supervisory target of 150 per cent of the capital required by the MCT. Most federally regulated property and casualty insurance companies carry significant retained earnings over the minimum required by OSFI (2007 average was 235 per cent of MCT).

The corporation's external actuary annually calculates the MCT by line of business to assist the Board of Directors in reviewing and establishing appropriate target levels. A discussion of the relevant target levels and issues by line of business follows.

BASIC INSURANCE

Basic's retained earnings are comprised of the Rate Stabilization Reserve (RSR) and the Immobilizer Incentive Fund (IIF). The corporation's Board of Directors' current target level range is 50 per cent to 100 per cent of MCT or $107 million to $214 million. The Public Utilities Board of Manitoba (PUB) by its Order 150/07 continues to reject MCT as the methodology for reviewing and establishing the Basic RSR for rate-setting purposes. The PUB target as stated in its order is $69 million to $106 million and includes the IIF for purposes of assessing RSR adequacy. The PUB Order directed the corporation to pay a 10 per cent rebate at an estimated cost of $62.7 million to bring the RSR closer to the PUB's target range.

As at February 29, 2008, Basic retained earnings totalled $145.0 million ($161.3 million previous year). Of that total, RSR made up $127.1 million ($128.1 million previous year), which is net of the $62.7 million rebate ordered by the PUB, and the IIF totalled $17.9 million ($33.2 million previous year).

Canada's two other provincial monopoly automobile insurers – the Insurance Corporation of British Columbia (ICBC) and Saskatchewan Government Insurance (SGI) – use MCT as the basis for setting retained earnings targets for their Basic lines of business. ICBC has set a target of 100 per cent of MCT and SGI has set a target range of 100 per cent to 125 per cent of MCT.

The corporation's external actuary, based on his report for the 2007 Basic Insurance Dynamic Capital Adequacy Test (DCAT), identifies three plausible scenarios where Basic retained earnings become negative and has concluded that the future financial condition of this line of business is not satisfactory.

The corporation has significant concerns that the future financial strength of the Basic insurance plan has been compromised by the PUB's actions with respect to the RSR target. The corporation's ability to provide Manitobans with continued rate stability has been weakened by the PUB's actions.

Funding for the RSR is derived from the annual operations of the Basic insurance plan. In prior years, retained earnings exceeding the targets set for the Extension and SRE lines of business were transferred to the Basic RSR as additional funding to achieve the target level set by the corporation's Board. These transfers have ceased with the order from the PUB that limits the RSR to levels that are fully funded to the PUB's target levels.

In 2005, the corporation established the IIF by appropriating $40 million from the Basic RSR. In 2006, an additional $10 million was appropriated. The fund provides financial assistance for vehicle owners to install electronic immobilizers and covers the administrative costs of the program. Activity during the current fiscal year reduced the fund to $17.9 million. Additional information is provided in the Notes to Financial Statements (Note 18).

EXTENSION INSURANCE

The corporation's Board of Directors' current target level for Extension retained earnings is 200 per cent of MCT. Based on this target the corporation's external actuary has concluded, in the 2007 Extension DCAT report, that the future financial condition of this line of business is satisfactory.

As at February 29, 2008, the retained earnings balance was $50.9 million compared to $46.4 million the previous year. This balance is $15.9 million higher than the current target level of $35.0 million. The Extension Development Fund, established March 1, 2007, was $35.4 million at the end of the current year. Additional information is provided in the Notes to Financial Statements (Note 19).

SPECIAL RISK EXTENSION (SRE)

The corporation's Board of Directors' current target level for SRE retained earnings is 200 per cent of MCT. Based on this target the corporation's external actuary has concluded, in the 2007 SRE DCAT report, that the future financial condition of this line of business is satisfactory.

As at February 29, 2008, the retained earnings balance was $52.8 million compared to $64.6 million the previous year. This balance is $15.8 million higher than the current target level of $37.0 million.

Accumulated Other Comprehensive Income

Accumulated Other Comprehensive Income (AOCI) reflects the unrealized gains or losses related to available for sale assets. The table below shows how unrealized gains and losses have been treated at the transition date and subsequently during the year.

CHANGES IN ACCOUNTING STANDARDS

In 2005, the Canadian Institute of Chartered Accountants (CICA) issued Section 1530 *Comprehensive Income*, Section 1531 *Equity*, Section 3855 *Financial Instruments – Recognition and Measurement*, and Section 3865 *Hedges*. The following is a summary of the changes to Canadian accounting standards that have an impact on its financial reporting. These new accounting standards apply to interim and annual financial statements that relate to fiscal years starting on or after October 1, 2006. The corporation has adopted these standards in its fiscal year commencing March 1, 2007.

Entities are required to classify all financial assets and financial liabilities:

- Held for Trading
- Available for Sale
- Held to Maturity

This classification determines how subsequent changes in the fair value of the financial instruments are recorded and reported in either net income or other comprehensive income. Following initial classification, an entity is not allowed to reclassify a financial instrument into or out of the Held for Trading category. Sale of more than an insignificant amount of Held to Maturity investments, resulting from a change in intent or ability, causes a tainting of the classification of those investments and the remaining Held to Maturity investments should be reclassified as Available for Sale.

$000	AOCI at March 1, 2007 (Transition Date)	Unrealized Gains (Losses) to February 29, 2008	Realized (Gains) Losses transferred to Net Income to February 29, 2008	AOCI at February 29, 2008
Canadian Equities	40,258	4,255	(36,932)	7,581
U.S. Equities	7,755	(28,786)	8,290	(12,741)
Bonds and Other	32,262	(2,244)	(1,690)	28,328
	80,275	(26,775)	(30,332)	23,168

Financial instruments are measured at fair value and reported on the balance sheet as such except for Held to Maturity investments, which continue to be measured at amortized cost, and investments in equity instruments that do not have a quoted market price in an active market, which are measured at cost. Changes in fair value for financial instruments classified as Held for Trading are to be recognized in net income. Changes in fair value for financial instruments classified as Available for Sale are recognized in other comprehensive income.

A new financial statement, the Statement of Comprehensive Income, is produced and reported with the same prominence as the other financial statements. This statement presents surplus and other components that are recognized in determining comprehensive income. Comprehensive income includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Those financial instruments classified as Available for Sale have the changes in fair value recognized in other comprehensive income until the asset is sold or impaired. AOCI is disclosed as a separate item within the company's equity.

Recognition and measurement of financial instruments, classified as Available for Sale, has had a significant impact on the corporation's financial statements as these investments, recorded at a book value of \$1,532,739,000 at February 28, 2007, were increased to their fair value of \$1,613,014,000 at March 1, 2007. This increase of \$80,275,000 has been recorded as AOCI. No changes resulted from the classification of the Held to Maturity financial assets or loans and receivables which are still being carried at amortized cost.

As a consequential effect of applying these new standards, the claims liabilities were recalculated using a market rate at March 1, 2007 resulting in an increase to the claims liabilities of \$22,948,000. Changes resulting from the recalculation have been recorded as transition adjustments in opening Basic Rate Stabilization Reserve and opening balance of retained earnings for the competitive lines of business.

Risk Management

Unpaid Claims

Manitoba Public Insurance maintains provisions for unpaid claims on a discounted basis to cover its future claims commitments. The corporation makes provisions for future development on claims that have been made, and an estimate for those that may have occurred but have not yet been reported.

In the case of major injuries, only a small portion of the total benefit is paid in the first year. As time passes and more information is available, the estimates are revised to reflect the most current forecast of claims costs.

Because the total amount paid on any single claim may be different from its initial reserve, Manitoba Public Insurance reviews the adequacy of these reserves annually. Adjustments, if needed, are calculated by the corporation's actuary. An independent assessment of the reserves is also conducted by the corporation's external actuary. The external auditor also reviews the adequacy of the reserves as part of its annual audit of the corporation's financial results.

This process has demonstrated a growing potential for volatility in financial results from year to year. If the current \$1.5 billion unpaid claims provision increased by five per cent, the impact on the corporation's annual bottom line that year could be approximately \$75.0 million – about \$25.0 million more than the risk of the same shift five years ago, when unpaid claims provisions totalled \$1.0 billion. By fiscal year ending February 28, 2013, unpaid claims provisions are expected to total \$2.1 billion and a five percentage point shift could have a \$105.0 million negative impact on the corporation.

Liquidity

Cash and cash equivalents are essential components of the corporation's financial liquidity management. Cash flows are monitored to ensure sufficient resources are available to meet our current operating requirements. Excess funds not needed to meet current operating requirements are invested in long-term instruments to generate additional revenue for future obligations.

Cash flows provided by operating activities of $133.8 million increased from the $95.3 million reported last year, due mainly to higher net income from annual operations. Cash flows used for investing activities decreased $68.4 million to $60.1 million. A breakdown of the corporation's investment portfolio is included in the Notes to Financial Statements (Note 5).

Investments

The Manitoba Department of Finance conducts all treasury and fixed income transactions on behalf of the corporation in accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*.

The Investment Committee, as appointed by the Board of Directors, oversees the corporation's investment policy. The investment portfolio is designed to cover corporate liabilities and generate income that is used to reduce policyholder premiums. The investment policy ensures assets are managed in a manner that will maximize return while minimizing risk in an overall portfolio context. Assets are diversified among various investment instruments such as short-term holdings, bonds and equities.

The Department of Finance contracts five external investment managers to administer the corporation's Canadian equity portfolio and two external managers to manage the United States equities. Through the department, the corporation also uses forward contracts to offset the impact of currency movement in U.S. dollar denominated assets. A working group, which is comprised of staff from the Department of Finance and Manitoba Public Insurance, oversees the day-to-day operations of the portfolio.

Driver and Vehicle Licensing

In 2004, the administration of driver and vehicle licensing functions was transferred to Manitoba Public Insurance with the promise to Manitobans that integration would, over time, deliver tangible benefits.

In November 2006, the first of these benefits began to flow to customers when the corporation implemented a new service delivery model that aligned driver licensing/insurance services with vehicle registration, insurance processes and integrated the renewal cycles.

The corporation also turned to Manitoba's independent insurance agents and their proud history of reliability and outstanding customer service, and extended driver licensing services to Autopac brokers throughout the province. Doing this immediately expanded the number of direct service outlets available to customers from 183 locations to more than 330. This included expanding customer service in urban centres by 70 per cent. Additionally, the renewal dates for Autopac and licences were moved to fully align, enabling customers to renew both at the same time.

Customers have responded very favourably to this improved convenience. In 2007, 94 per cent of our customers renewing their driver's licences with Autopac agents were satisfied with the service that they received. This is six percentage points higher than the 88 per cent that were satisfied before the changes were introduced.

Service Delivery

Providing direct customer service at the community level has always been a hallmark of Manitoba Public Insurance. While the corporation has worked with Manitoba's Autopac brokers to increase customer access to a number of driver's licence services, it also recognizes that there have always been and will always be services – such as taking a driving test or having a claim estimated – that our customers will need to deal directly with a Manitoba Public Insurance employee.

In 2007, Manitoba Public Insurance announced that it was making investments in infrastructure to better meet the needs of its customers in the future. Building on the success of a Winkler pilot project, the corporation is proceeding with its strategy to convert its existing provincial network of claims centres into multi-use service centres.

This model was developed by working with the Insurance Brokers Association of Manitoba leadership to build understanding that this model poses no risk to Autopac agents. A dialogue that began as part of the Winkler pilot will continue throughout the rollout.

Manitoba Public Insurance also announced in 2007 it would expand its capacity in Winnipeg and Selkirk by building new service centres.

The corporation will roll out its full service centre model in a staged process to reduce risk and customer impact. Having been tested in Winkler, the new model will be expanded to Brandon in 2008 and Winnipeg and the rest of Manitoba beginning in early 2009.

This means that all 17 locations across Manitoba will offer a wider range of direct customer services – including written and road tests, vision screening and commercial vehicle registration – while continuing to process claims. This transformation is expected to more than double the number of full-time customer service outlets for driver testing and could more than quadruple for registration of commercial vehicles and enrolment in the International Registration Plan.

As these service improvements are implemented, the corporation will be able to achieve operational efficiencies by automating more functions and reducing the number of stand-alone driver and vehicle licensing outlets. Over time, the corporation expects this new service model to reduce costs by about $5.0 million annually.

The development of two new, larger centres in Winnipeg represents the first investment in the city in more than two decades. Furthermore, this development demonstrates that companies in Manitoba can improve service while going green. The transition of claims centres to multi-use service centres will enable the corporation to:

- Meet changing demographics in Winnipeg and growing customer demand throughout the province for direct services;
- Meet increasing claims volumes resulting from population and vehicle fleet growth; and
- Fully integrate insurance and licensing services and better utilize space available within existing centres.

Whenever possible, retrofitted centres will be upgraded to environmental standards as measured by the international Building Owners and Managers Association (BOMA). Earlier this year, the corporation's claims centre on St. Mary's Road became the first building in Manitoba to achieve BOMA Go Green Plus status – which measures a building's energy consumption, water efficiency, waste reduction as well as waste and water emissions and effluents.

In Winnipeg, the corporation also announced the development of three new 28,000-square-foot full service centres. The new centres will be built in locations to more closely match services with population and claims growth patterns of Winnipeg. The site selections were recommended by a third-party expert who conducted an independent assessment by examining Winnipeg housing starts, population growth and projected claims growth. The evaluation also examined the distance that claimants travelled to centres and the distance that they travelled to renew their driver's licence.

A fourth smaller service centre will be developed in Selkirk over the next two years, replacing the aging existing centre. It will increase customer convenience because it will be more centrally located.

The new centres will build on the corporation's commitment to new environmental standards when it developed state-of-the-art facilities in Beausejour and Winkler two years ago. Building on these advances, the corporation is committed to developing future construction projects to Leadership in Energy and Environmental Design (LEED) silver status. The buildings will significantly improve their energy efficiency and reduce their environmental impact by utilizing new technologies such as geothermal heat recovery systems and motion sensors that adjust lighting as people move throughout the buildings.

Road Safety

Manitobans continue to support the corporation's focus on road safety, with nine out of 10 people believing Manitoba Public Insurance should be involved in efforts to make driving safer in the province.

Toward that end, organizational changes introduced this year will bring complementary and interdependent driver safety, driver improvement, vehicle safety and road safety programs together with the goal of producing a more co-ordinated, holistic and focused approach to road safety programming. Similarly, departments involved in driver education, driver testing and driver improvement have been aligned with a view to informing and improving one another's programs.

The rationale for this change is simple – program designers who have access to a full range of the latest data are better equipped to identify and address emerging trends. The result will be more proactive and effective prevention programs.

With respect to road safety programming specifically, the corporation continues to focus on education, awareness and strategies to build community involvement in designing programs to inform and educate Manitobans about key road safety concerns, including the risks and costs associated with speeding, drinking and driving, and non-use of occupant restraints. We recognize that traditional road safety models require co-ordinated educational, enforcement and engineering efforts to have a maximum impact, and we continue to work closely with other safety stakeholders throughout Manitoba to develop a co-ordinated effort.

The corporation continues to support Canada's national road safety plan, Vision 2010. The goal of Vision 2010 is to raise public awareness of road safety issues, strengthen enforcement, improve national road safety data quality, and improve collaboration among road safety agencies.

The corporation will continue to monitor these results and adjust its community mobilization and educational programs to respond to the changing landscape. To this end, preliminary statistics show that the number of fatal crashes in Manitoba declined in 2007 to 96 from 104 in 2006. The number of people killed in those crashes also declined when compared to 2006.

Auto Theft Strategies

Results in 2007 demonstrate the value of the corporation's two-pronged approach to fighting auto theft. Protecting vehicles by installing immobilizers and keeping tabs on auto thieves through an extensive curfew program have together helped reduce auto theft province-wide by 34.4 per cent since 2004. During the same period, thefts in Winnipeg declined 38.5 per cent (from 8,897 to 5,476).

The average number of vehicles stolen daily in Winnipeg has fallen from 24 in 2004, to 20 in 2005 and 2006, and to 15 in 2007. In the first three months of 2008, there have been fewer than 10 vehicles stolen each day in Winnipeg. The estimated savings in claims costs has been $31.8 million over the past three years.

WATSS

The Winnipeg Auto Theft Suppression Strategy (WATSS) – a partnership among Manitoba Public Insurance, Manitoba Justice and the Winnipeg Police Service – is one critical element in the fight against auto theft. WATSS provides intensive monitoring of the worst repeat offenders, using the combined forces of families, schools, social services, law enforcement and probation.

At the end of 2007, 131 youth were being monitored through WATSS, including 55 Level 4A offenders, or those who are considered to be at the greatest risk of reoffending. Level 4A offenders are contacted up to 36 times per week under the WATSS program.

IMMOBILIZERS

In June 2005, the corporation announced the creation of an Immobilizer Incentive Fund to provide all Manitobans with financial incentives to install electronic immobilizers in their vehicles.

In April 2006, the corporation announced it would provide vehicles most targeted by auto thieves with immobilizers at no cost, and provide a one-stop process for arranging installation. Although thousands of Manitobans took advantage of the program, there remained more than 30,000 owners of Most-at-Risk vehicles who refused to join the fight against auto theft by installing a free immobilizer.

The government recognized in 2007 that the voluntary program was not working. Some customers had been approached more than a half-dozen times and still hadn't installed an immobilizer. In September 2007, the province made it a legal requirement for Most-at–Risk vehicles to have an approved immobilizer installed if they're driven in Winnipeg or used to commute there.

The Manitoba initiative coincided with new federal regulations that required all new vehicles made for sale in Canada after September 2007 to be protected with immobilizers that meet the national standard.

The new mandatory program increased the number of protected vehicles in the Winnipeg area by 40 per cent in 2007 – nearly 40,000 Most-at-Risk vehicle owners signed up for the program.

Today, the number of vehicles equipped with electronic immobilizers continues to grow, with 87 per cent of Most-at-Risk vehicles in Winnipeg protected. Province-wide, there are currently some 295,500 vehicles in Manitoba with immobilizers, including 92,000 with aftermarket devices and about 203,000 with factory-installed devices.

Four years of experience and more than 100,000 installations have demonstrated the effectiveness and reliability of immobilizers. In 2007, a robust quality control program – made up of the national Vehicle Security Installation Bureau (VSIB), the two major distributors and immobilizer installation facilities – ensured that 98 per cent of the immobilizer installations were completed problem free – a better record than most other consumer products. Nearly four out of five problems that have been reported were related to the condition of the vehicle before the installation. Most of these problems have been minor in nature and in most cases have been solved with a quick adjustment by the installation facility.

ACHIEVEMENT OF RESULTS

The impact of the growth of immobilizers and WATSS has been dramatic. In 2007/08, Manitoba recorded the largest drop in auto theft in 30 years. The number of claims reported by Manitobans relating to all auto crime categories fell in the fiscal year 2007/08, reducing claims costs by $11.7 million as:

- Total theft claims costs declined $7.5 million or 22.5 per cent;
- Attempted theft claims costs declined by $2.0 million or 16.7 per cent; and
- Partial theft claims costs declined by $2.2 million or 47.2 per cent.

In all, there were 6,977 vehicles stolen in Manitoba in the 2007 calendar year – 2,473 fewer than the year earlier. That brings the number of vehicles stolen in Manitoba to levels not seen since the millennium.

Most of the gains were made in Winnipeg, where the number of vehicles stolen dropped 29.1 per cent as monthly theft rates declined 17 of the last 18 months. In the first three months of 2008, auto thefts in Manitoba dropped a further 42.5 per cent and by 45.8 per cent in Winnipeg, compared to the same period in 2007.

Manitoba Public Insurance remains committed to its multi-pronged approach to auto theft. It will continue to evolve to meet emerging challenges with the goal of achieving its business objectives and improving community safety throughout Manitoba.

Outlook

The corporation remains committed to achieving its seven Corporate Goals. Actual results are monitored quarterly by the Board of Directors and corrective action is taken when necessary to ensure that expected outcomes are realized.

Under *The Crown Corporations Public Review and Accountability Act*, Manitoba Public Insurance is required to submit Basic Autopac rates to the Public Utilities Board (PUB) for approval. The corporation generally files its rate application in June of each year for the fiscal year beginning the following March.

Basic Autopac Rates

On November 26, 2007, the PUB released its ruling on Manitoba Public Insurance's rate application for the 2008/09 fiscal year. Effective March 1, 2008, overall Basic insurance rates will remain unchanged, although rates will be reduced by 0.1 per cent for owners of private passenger vehicles and 1.2 per cent for commercial vehicles. Motorcycles and public vehicles will experience an increase of 9.2 per cent and 1.2 per cent respectively. The main components and coverages of the Basic insurance plan will remain unchanged from the previous year.

Premium Rebate

The PUB has ordered a rebate estimated to be $62.7 million, which will be paid to Basic insurance policyholders during the first quarter of the 2008/09 fiscal year.

Net Income

Current projections indicate that the corporation is expected to realize a net loss of approximately $10.0 million during the 2008/09 fiscal year.

Business Process Review

Manitoba Public Insurance prides itself on understanding the needs and expectations of its customers. By engaging in a continuous dialogue with Manitobans, the corporation is able to establish strategies that meet their priorities and provide them with better value.

In 2006/07 the corporation began a process to renew the corporate infrastructure with our customers' interests at heart. The goal of the Business Process Review (BPR) was to integrate driver licensing functions into the corporation and utilize technological and process improvements to enhance customer service, and operating efficiency, and to make Manitoba's roadways safer for everyone.

In 2007, government recognized that there are a number of Manitobans who are non-drivers and who require credible government issued identification. By utilizing existing technology as well as expertise and delivery systems already in place to deliver driver's licences, the corporation developed a provincial identity card that it will introduce, on behalf of the Manitoba government, in 2008.

The corporation also recognizes that, with so many Manitobans living so close to the border, spontaneous travel into the United States has become common. However, recent restrictions imposed by U.S. authorities to tighten up border security after June 2009 could limit the ability of many Manitoba families to make these trips.

At the request of the Manitoba government, the corporation will initiate a pilot project in 2008 to produce Enhanced Identification Cards – a photo card with superior security features that will meet U.S. border crossing requirements. Because security requirements for these cards was not determined by federal governments until late spring, the corporation does not expect to be able to introduce these cards until the late fall of 2008. With the expected popularity of this identification alternative, the corporation will be challenged to process all requests before the U.S. imposed June 2009 deadline.

One year later, the corporation will combine the improved identity features in a new Enhanced Driver's Licence that meets U.S. border crossing requirements. This document will be produced as Manitoba Public Insurance introduces a new one-piece driver's licence for all drivers. This will be combined with a more convenient, streamlined renewal process for Autopac renewals.

Research shows that most Manitobans consider the annual renewal process to be little more than a payment process with four out of five making no changes to coverage. These changes will mean that, with the exception of the renewal process every five years, Manitobans will determine when they need and want to do business with the corporation.

In an effort to reduce risk on Manitoba roadways, in 2009 Manitoba Public Insurance will also introduce changes to the merit discount surcharge program, which will provide drivers with a direct link between their driving habits and history and how much they pay for auto insurance.

The Driver Safety Rating is aimed at bringing greater consistency, simplicity and equity to Manitoba's system of rewarding good drivers and penalizing those whose behaviour brings more risk into the driver and vehicle insurance pool. Another important aim of this initiative is to demonstrate to customers the linkage between individual driving behaviour and the amount that they pay for auto insurance.

Throughout 2008/09 the corporation will map out the principles and policies that will provide the foundation for the program. In the year ahead, the corporation will consult with customers and stakeholders to refine program details and ensure the underlying principles are consistent with the needs and values of Manitobans. The supporting technology will be developed as consultation is underway.

These changes are only possible because driver licensing, vehicle registration and insurance systems were brought together. Integration has enabled the corporation to achieve greater efficiencies while making customer service improvements.

Auto Theft

The corporation's auto theft strategy continues to evolve over time to meet emerging issues and address challenges of full participation. Experience gained in 2007/08 illustrates that a new group of approximately 48,000 vehicles is rapidly becoming at risk of theft. For example, in 2006, Cadillac Escalades built between 2000 and 2004 had a theft risk of 1 in 82. One year later, the risk for these vehicles was 1 in 8. Similarly, a Chevy Trailblazer built between 2000 and 2004 had a 1 in 141 chance of being stolen in 2006. One year later, the risk of theft for these vehicles was 1 in 18.

The corporation anticipates that, at the current pace, these vehicles could have the same theft experiences as the original Most-at-Risk group by 2009. Collectively, this group has a risk of theft of greater than 1 in 100.

About half this group have become targets favoured by auto thieves in the last year, and owners have not yet been warned that their vehicles are a high theft risk. The other half currently qualify for free immobilizers on a voluntary basis.

Immobilizing these vehicles will move the corporation closer to the goal of reducing theft in Winnipeg by 80 per cent from 2004/05 levels. It would bring the overall theft frequency in Winnipeg to less than one per cent.

The government has decided that this group of high risk vehicles will be added to the regulation requiring an immobilizer be installed before registration can be renewed after October 1, 2008.

The corporation will protect these vehicles using the same process currently in place. In order to minimize customer inconvenience, the corporation will take a proactive approach to notify vehicle owners of the need to immobilize before their renewal date. They will be provided with a no-cost immobilizer, a free installation and five-year interest-free financing for any additional charges.

All affected registered vehicle owners will receive their first notice four months prior to their renewal. It will be informative and helpful and will be followed up with written and telephone communications until an appointment is booked.

Corporate Governance

Responsibilities of the Board

Manitoba Public Insurance was created by an act of the legislature to achieve the corporation's founding principles. The corporation's Board, appointed by the Government of Manitoba, ensures that corporate policies are consistent with its public policy mandate. The Board is also responsible for policy development and approval, and provides oversight and monitoring. The Board consists of nine members. The President and Chief Executive Officer is an Ex-Officio Member of the Board and the Board Committees. There is currently one vacancy on the Manitoba Public Insurance Board of Directors.

The corporation has a comprehensive annual strategic planning process. The Board participates in the development and approval of a five-year strategic plan. From that document flow lines of business strategies, human capital forecasts, premises and technology requirements, as well as a financial forecast. Divisional plans and departmental strategies support the strategic plan.

Monitoring of companies is becoming stricter with the introduction of new compliance controls by government bodies and regulators. These entity-level controls are designed to enforce and improve transparency, accountability and integrity, and include controls to ensure that:

- Ethical values including codes of conduct are communicated and enforced;
- Human resources policies and procedures are adhered to;
- Entity-wide risk assessment processes are in place;
- Financial reporting information systems are continuously being monitored; and
- The corporation complies with all sections of various legislative Acts.

To support these compliance controls and in particular to protect the financial well-being of the corporation, an anonymous and confidential Whistleblower Hotline system has been created for the receipt, retention and treatment of complaints from employees. The corporation has also completed implementation of *The Public Interest Disclosure* (Whistleblower Protection) *Act* provisions.

As these matters are of paramount concern to the Board of Directors and senior management, the corporation has retained the services of an independent third party to collect information and provide reports directly to the Chair of the Audit Committee, the Corporate General Counsel and Manager of Internal Audit – recognizing that employees will be more likely to submit reports if they have a direct channel open to them with which they are comfortable.

Furthermore, it is the policy of the corporation to ensure there are no reprisals against any employee for accessing the Whistleblower Hotline and making a report, should the identity of the reporting employee become known despite stringent provisions for confidentiality. The purpose of the policy is to prevent and limit abuses of accounting, auditing and internal controls by disciplining those responsible, not to discipline those who report such abuses.

The corporation's governance structure was reviewed to highlight accountability, organizational effectiveness and risk mitigation. All corporate risks were reviewed and a monitoring process is in place to ensure timely recognition and response. Specific Board responsibilities have been delegated to five committees that meet quarterly to monitor risk and provide direct oversight. For example, the Audit committee is responsible for evaluating about 40 specific risk profiles by likelihood and severity. These profiles were developed over time and are reviewed on an annual basis and placed into categories of high, medium and low risk. The Board committees include:

- Audit
- Budgeting and Operations
- Human Resources
- Investment
- Governance

Under the provisions of *The Manitoba Public Insurance Corporation Act*, the Board chairperson is required to provide the Minister Responsible for Manitoba Public Insurance with an annual report, which is subsequently reviewed by the Standing Committee of the Legislature. Additional oversight is provided by the Crown Corporation Council, a body given legislative authority to conduct a mandate and strategy review of provincial Crown corporations, and the Public Utilities Board, which approves Basic Autopac insurance rates.

Whistleblower Report

This report on the Whistleblower Hotline covers the fiscal year March 1, 2007 to February 29, 2008. During this reporting period, the corporation received two reports through the Whistleblower Hotline:

1. On March 14, 2007 the corporation received a report that, in one area, parking passes and corporate vehicles were not being properly assigned. An investigation disclosed that corporate guidelines were not being strictly adhered to and corrective action was taken. A reminder with respect to existing corporate policies was circulated to all staff within the unit.
2. On October 19, 2007 the corporation received a report regarding a potential conflict of interest involving one of its employees and a customer of someone related to the employee. A subsequent investigation revealed that the employee had disclosed their personal connection earlier and had taken informal measures to ensure a conflict did not take place. In this particular incident, it turned out the employee was the only person available to provide the service.

   The investigation failed to disclose any form of collusion. Formal procedures were put in place to prevent such an incident from happening again. The corporation's Conflict of Interest Guidelines were amended to specifically include incidents similar to this. Employees in the area are now required to declare, in writing, any outside relationships with vendor clients.

Both of these complaints have now been concluded.

The corporation has completed implementation of *The Public Interest Disclosure* (Whistleblower Protection) *Act* provisions as part of its overall Whistleblower program. Policies and procedures have been drafted and communicated to staff. No reports were received in the past fiscal year under *The Public Interest Disclosure* (Whistleblower Protection) *Act*.

Compliance to Legislative Authority Audit

In 2005, at the request of the Auditor General of Manitoba, the corporation's external auditors undertook a pilot project to audit the corporation's compliance with specified legislative and related authorities. The external auditors concluded that the corporation complied in all material respects with the specified legislative and related authorities.

The corporation determined there is value in this process and therefore, since 2006, has engaged its external auditors to continue to conduct this audit. In 2007, this audit again found that the corporation is in compliance in all material respects with the specific legislative and related authorities.

Compliance to Legislative Authority Sustainable Development Act

In accordance with Section 14 of *The 1997 Manitoba Sustainable Development Act*, the corporation experienced one reportable incident between March 1, 2007 and February 29, 2008. This incident involved a contractor's employee releasing Freon from salvage vehicles, a controlled ozone depleting substance. The incident was reported to Manitoba Conservation and investigated. The contracted firm and its employees were disciplined and new procedures were put into place to prevent this type of event from occurring in the future.

The corporation has established sustainable development procurement guidelines to encourage sustainable development practices on the part of suppliers and business partners.

SOILS TESTING

Manitoba Public Insurance tests new properties to identify any environmental contamination issues. In 2007, new properties planned for development in Winnipeg and Selkirk were tested. Hydrocarbon contamination was identified on one site and a remediation plan put into place before construction.

In 2007, the corporation also tested for the presence of heavy metals at its 1981 Plessis Road site. Sediment from 13 sampling locations in drainage ditches were tested with no or trace levels found. All levels were well below environmental thresholds.

WATER TESTING

The corporation annually tests the water quality of any facility that has a well as its main source of water. In 2007, testing found no signs of bacterial contamination in water samples.

The corporation annually tests run-off water from 13 sampling locations around its 1981 Plessis Road facility. In 2007, testing showed only minor traces of hydrocarbons and ethylene glycol at a small number of sampling locations. In all cases, the levels found were well below environmental thresholds.

RECYCLING AND THE USE OF RECYCLED GOODS

The corporation undertakes a number of programs to divert waste to other reusable forms. In 2007, it:

- Sold 26,045 vehicles through the salvage sales department to automobile recyclers or the public so the vehicles could be rebuilt or used for replacement parts in other vehicles;
- Used 85,330 recycled parts in claims repairs;
- Extracted Freon from air conditioning systems in 16,383 salvage vehicles;
- Extracted and used 22,654 litres of gasoline from salvage vehicles;
- Used 20.2 million sheets of 30 per cent recycled paper;
- Recycled 189.7 tonnes of paper and cardboard;
- Recycled 0.7 tonnes of plastic and metal containers;
- Recycled 1.1 tonnes of lead acid UPS batteries; and
- Purchased 145 used modular workstations from a company downsizing in the U.S.

FLEET VEHICLE MANAGEMENT

In 2007, the corporation's fleet expanded its use of more fuel efficient and alternative fuel vehicles which now includes 20 gas/electric hybrid vehicles, and 22 E85 Ethanol fuel capable vehicles. Currently, 42 per cent of the corporate fleet is powered with fuel efficient four-cylinder engines.

FACILITIES MANAGEMENT

The corporation continues to apply sustainable practices in the construction and operation of its facilities, having adopted both the Leadership in Energy and Environmental Design (LEED) silver status for all future building projects, and the pursuit of Building Owners and Managers Association (BOMA) Go Green Plus certification for existing buildings.

In 2007, the corporation had one building awarded a BOMA Go Green Plus certification, the first in Manitoba. Two additional buildings are currently in this certification process.

The corporation's newest claims centres employ a number of energy efficient materials, designs and systems including high-efficiency insulation and windows, ground source heat pumps, glycol heat recovery systems, variable speed motors, energy efficient lighting, natural light and occupancy lighting controls, temperature sensitive block heater plugs, and water conserving fixtures.

In older buildings the corporation monitors utility consumption and pursues sustainable upgrades during lifecycle replacement or major renovations by adding many of the features found in its newer buildings.

Responsibility for Financial Statements

The financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with that in the financial statements. The financial statements necessarily include amounts that are based on management's best estimate and judgments which have been reached based on careful assessment of data available through the corporation's information systems. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the corporation.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by the Internal Audit Department.

The financial statements were approved by the Board of Directors, which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit Committee (the "Committee"), which consists primarily of Directors not involved in the daily operations of the corporation.

The general responsibilities of the Committee are categorized into the following: review of financial reporting, review of internal controls and processes, review of actuarial functions, monitoring of corporate integrity, compliance with authorities and review of performance reporting. The Committee's role is that of oversight in these areas in order to ensure management processes are in place and functioning so as to identify and minimize risks to the business operations.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the corporation's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to the external and internal auditors.

The Committee is responsible for the review of the actuarial function. As well, the Committee recommends, for approval, the appointment of the external actuary and his fee arrangements to the Board of Directors. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy and claims liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. In addition, the actuary provides an opinion regarding the valuation of policy and claims liabilities at the balance sheet date to meet all policyholder obligations of the corporation. Examination of supporting data for accuracy and completeness of assets and their ability to meet the policy and claims liabilities are important elements in forming the actuary's opinion.

KPMG LLP, the corporation's appointed external auditors, have audited the financial statements. Their Auditors' Report is included herein. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position of the corporation in accordance with Canadian generally accepted accounting principles.

M. J. McLaren
President and Chief Executive Officer

D. D. Palmer
Vice-President,
Finance and Chief Financial Officer

April 24, 2008

Auditors' Report

To the Board of Directors of Manitoba Public Insurance Corporation:

We have audited the balance sheet of Manitoba Public Insurance Corporation as at February 29, 2008 and the statements of operations, retained earnings, comprehensive income (loss), accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at February 29, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Winnipeg, Canada
April 24, 2008

Actuary's Report

To the Board of Directors of Manitoba Public Insurance Corporation:

I have valued the policy liabilities of Manitoba Public Insurance Corporation for its balance sheet at February 29, 2008 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

Jim Christie

James K. Christie
Fellow, Canadian Institute of Actuaries
Winnipeg, Manitoba
April 24, 2008

FINANCIAL STATEMENTS

Statement of Operations

Years ended February 29/28		2008		2007
Revenue		(in thousands of dollars)		
Premiums written	$	842,053	$	812,378
Premiums earned (Note 9)	$	828,121	$	798,811
Service fees		20,558		18,387
Driver licensing operations recovery (Note 17)		21,000		20,475
Total earned revenues		869,679		837,673
Claims Costs				
Claims incurred (Note 9)				
Current year		680,859		688,952
Prior years (Note 8)		(62,460)		(60,582)
		618,399		628,370
Claims expense		84,505		79,850
Loss prevention/Road safety		25,771		23,469
		728,675		731,689
Expenses				
Commissions		59,040		55,148
Operating		83,864		79,849
Premium taxes		23,466		20,803
Regulatory/Appeal		2,738		2,221
		169,108		158,021
Total claims and expenses		897,783		889,710
Underwriting income (loss)		(28,104)		(52,037)
Investment income (Note 11)		125,544		120,425
Net income (loss) from annual operations (Note 13)		97,440		68,388
Surplus distribution (Note 14)		(62,565)		(59,652)
Net income (loss) after surplus distribution	$	34,875	$	8,736

The accompanying notes are an integral part of these financial statements.

Balance Sheet

February 29/28	2008	2007
Assets	(in thousands of dollars)	
Cash and investments (Note 5)	$ 2,187,313	$ 2,015,010
Due from other insurance companies	3,877	10
Accounts receivable	256,583	247,140
Deferred policy acquisition costs	11,510	17,002
Reinsurers' share of unearned premiums	11,129	10,027
Reinsurers' share of unpaid claims (Note 8)	51,345	27,844
Property and equipment (Note 6)	32,611	29,871
Deferred development costs	16,571	10,827
	$ 2,570,939	$ 2,357,731
Liabilities		
Due to other insurance companies	$ 23,073	$ 8,993
Accounts payable and accrued liabilities	105,283	92,562
Unearned premiums	419,990	403,929
Provision for employee current benefits	14,045	13,779
Provision for employee future benefits (Note 7)	188,580	166,472
Provision for unpaid claims (Notes 8 and 12)	1,512,625	1,399,748
	2,263,596	2,085,483
Retained Earnings		
Basic Insurance Retained Earnings		
Rate Stabilization Reserve	127,122	128,122
Immobilizer Incentive Fund	17,925	33,143
	145,047	161,265
Competitive Lines Retained Earnings		
Retained Earnings	103,739	110,983
Extension Development Fund	35,389	–
	139,128	110,983
	284,175	272,248
Accumulated Other Comprehensive Income (Note 3)	23,168	–
	$ 2,570,939	$ 2,357,731

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

Shari Decter Hirst
Chairperson

Kerry Bittner
Director

Statement of Retained Earnings

Years ended February 29/28		2008		2007
Basic Insurance		(in thousands of dollars)		
Rate Stabilization Reserve				
Balance beginning of year	$	**128,122**	$	136,071
Transition adjustment (Note 4)		**(22,693)**		–
Net income (loss) from annual operations after surplus distribution (Notes 13 and 14)		**6,475**		(11,869)
Transfer from Immobilizer Incentive Fund		**15,218**		3,920
Balance end of year		**127,122**		128,122
Immobilizer Incentive Fund				
Balance beginning of year		**33,143**		37,063
Transfer to Rate Stabilization Reserve		**(15,218)**		(3,920)
Balance end of year (Note 18)		**17,925**		33,143
Balance Basic Insurance Retained Earnings end of year		**145,047**		161,265
Competitive Lines				
Retained Earnings				
Balance beginning of year		**110,983**		90,378
Transition adjustment (Note 4)		**(255)**		–
Net income (loss) from annual operations (Note 13)		**28,400**		20,605
Transfer to Extension Development Fund		**(35,389)**		–
Balance end of year		**103,739**		110,983
Extension Development Fund				
Balance beginning of year		**–**		–
Transfer from Retained Earnings		**35,389**		–
Balance end of year (Note 19)		**35,389**		–
Balance Competitive Lines Retained Earnings end of year		**139,128**		110,983
Balance Retained Earnings end of year	**$**	**284,175**	$	272,248

The accompanying notes are an integral part of these financial statements.

Statement of Comprehensive Income (Loss)

Years ended February 29/28		2008		2007
		(in thousands of dollars)		
Net income (loss) after surplus distribution	$	34,875	$	8,736
Other Comprehensive Income (Loss)				
Unrealized gains (losses) on available for sale assets		(26,775)		
Reclassification to income from available for sale assets		(30,332)		
Other Comprehensive Income (Loss) for the year		(57,107)		
Total Comprehensive Income (Loss)	$	(22,232)		

Statement of Accumulated Other Comprehensive Income

Year ended February 29		2008
		(in thousands of dollars)
Balance beginning of year	$	–
Transition adjustment (Note 4)		80,275
Other Comprehensive Income (Loss) for the year		(57,107)
Balance end of year	$	23,168

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Years ended February 29/28	2008	2007
	(in thousands of dollars)	
Cash Flows from (to) Operating Activities:		
Net income (loss) after surplus distribution	**$ 34,875**	$ 8,736
Non-cash items:		
Amortization of property and equipment and deferred development costs	**6,770**	5,948
Amortization of bond discount and premium	**(244)**	5,611
Gain on sale of investments	**(39,342)**	(49,839)
Write-down of investments	**9,010**	1,058
	11,069	(28,486)
Net change in non-cash balances:		
Due from other insurance companies	**(3,867)**	(3)
Accounts receivable	**(9,443)**	(14,238)
Deferred policy acquisition costs	**5,492**	11,674
Reinsurers' share of unearned premiums and unpaid claims	**(24,603)**	(3,767)
Due to other insurance companies	**14,080**	169
Accounts payable and accrued liabilities	**12,720**	(1,344)
Unearned premiums	**16,061**	18,102
Provision for employee current benefits	**266**	1,084
Provision for employee future benefits	**22,108**	14,728
Provision for unpaid claims	**89,929**	97,361
	122,743	123,766
	133,812	95,280
Cash Flows from (to) Investing Activities:		
Acquisition of property and equipment net of proceeds from disposals	**(7,683)**	(3,612)
Purchase of investments	**(1,140,658)**	(1,008,986)
Proceeds from sale of investments	**1,095,777**	891,834
Deferred development costs incurred	**(7,571)**	(7,750)
	(60,135)	(128,514)
Increase (Decrease) in Cash and Short-Term Investments	**73,677**	(33,234)
Cash and short-term investments beginning of year	**57,100**	90,334
Cash and Short-Term Investments end of year (Note 5)	**$ 130,777**	$ 57,100

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

1. Status of the Corporation

The Manitoba Public Insurance Corporation (the "corporation") was incorporated as a Crown corporation under *The Automobile Insurance Act* in 1970. In 1974, *The Automobile Insurance Act* was revised and became *The Manitoba Public Insurance Corporation Act* (Chapter A180 of the continuing consolidation of the Statutes of Manitoba). In 1988, the Act was re-enacted in both official languages as Chapter P215 of the Statutes of Manitoba.

Under the provisions of its Act and regulations, the corporation operates an automobile insurance division and a discontinued general insurance division. The lines of business for the automobile insurance division provide for basic universal compulsory automobile insurance, extension and special risk coverages. For financial accounting purposes, the lines of business for the automobile insurance division and the discontinued general insurance division are regarded as separate operations and their revenues and expenses are allocated on a basis described in the summary of significant accounting policies. For financial reporting purposes, due to the immateriality of the financial results of the discontinued general insurance operations, (Note 12), the operations are reported as part of the Special Risk Extension line of business. The basic universal compulsory automobile insurance line of business is subject to regulation by the Public Utilities Board (PUB) of Manitoba with respect to insurance rates and service fees (Note 20).

Operations pertaining to driver safety, vehicle registration and driver licensing, including all related financial, administrative and data processing services, were transferred to the corporation, from the Province of Manitoba, effective October 4, 2004.

2. Basis of Reporting

The financial statements of the corporation are in such form as prescribed by Section 43(1) of *The Manitoba Public Insurance Corporation Act* and are presented in accordance with Canadian generally accepted accounting principles.

The external actuary is appointed by the Board of Directors of the corporation. With respect to preparation of these financial statements, the external actuary is required to carry out a valuation of the policy liabilities and to report thereon to the corporation's Board of Directors.

The external actuary also uses the work of the external auditors in his verification of the information prepared by the corporation used in the valuation of the policy liabilities.

The external auditors are appointed by the Lieutenant Governor in Council to conduct an independent and objective audit of the financial statements of the corporation in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors also make use of the work of the external actuary and his report on the corporation's policy liabilities. The external auditors' report outlines the scope of their audit and their opinion.

3. Summary of Significant Accounting Policies

This summary outlines those accounting policies followed by the corporation that have a significant effect on the financial statements.

Investments

Funds available for investments are managed by the Department of Finance, on behalf of the corporation, in accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*.

Under the provision of CICA 3855 *Financial Instruments – Recognition and Measurement*, the financial assets of Manitoba Public Insurance's investment portfolio are designated as Available for Sale (AFS) or Held to Maturity (HTM) (see Note 4).

Corporate investments that experience a decline in fair value, which is determined to have been other than temporary, are deemed to be impaired and written down to their expected recoverable amount.

The fair value of financial instruments are obtained from external pricing services and are based on bid prices for financial assets. Short-term investments comprise investments due to mature within 12 months from the date of purchase and are carried at fair value.

The corporation accounts for the purchase and sale of securities using settlement date accounting.

i) AFS Financial Assets

AFS financial assets are carried at fair value on the Balance Sheet starting on the settlement date and the changes in fair value are recorded in Other Comprehensive Income (OCI) until the asset is disposed of, or has become other than temporarily (OTT) impaired. As long as an AFS asset is held and not OTT impaired, the gains and losses are not recognized in the Statement of Operations. When the asset is disposed of, or has become OTT impaired, the gain or loss is recognized in the Statement of Operations and the amount is deducted from OCI.

The fair value of AFS bonds including federal, provincial, certain municipal, certain hospitals, other provinces and corporations is estimated based on bid prices of these or similar investments.

Transaction costs related to AFS financial assets are capitalized on initial recognition and, where applicable, are amortized to interest income using the effective interest method.

ii) HTM Financial Assets

HTM financial assets are carried at amortized cost on the Balance Sheet starting on the settlement date.

The fair value of HTM bonds, including schools, certain municipal and certain hospitals, is based on their carrying value, which approximates market value.

Transaction costs related to financial assets and liabilities classified as HTM are capitalized on initial recognition, when applicable.

Loans and receivables

Certain financial assets are designated as loans and receivables and continue to be carried at amortized cost.

Deferred Policy Acquisition Costs

Commissions and premium taxes are deferred and charged to expense over the term of the insurance contract to which such costs relate.

Property and Equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis which will amortize the cost of each asset over its estimated useful life:

Computer equipment . . . . 3 years

Vehicles . . . . 5 years

Furniture and equipment. . . . . 10 years

Land improvements . . . . 25 years

Buildings . . . . 40 years

Leasehold improvements are amortized over the term of the lease plus the first renewal period.

Deferred Development Costs

The costs of developing major information systems that are expected to be of continuing benefit to the corporation are deferred to future periods. These information system expenditures are stated at cost net of accumulated amortization and are amortized on a straight-line basis over five years.

Unearned Premiums

The liability for unearned premiums is the portion of premiums that relate to the unexpired term of each insurance contract.

Provision for Employee Benefits

PROVISION FOR EMPLOYEE CURRENT BENEFITS

The provision for employee current benefits includes an accrual for vacation pay determined in accordance with the Collective Agreement.

PROVISION FOR EMPLOYEE FUTURE BENEFITS

Included in the provision for employee future benefits are the pension benefit plan and other benefit plans.

i) Pension Benefit Plan

The employees of the corporation are members of a defined benefit pension plan administered under *The Civil Service Superannuation Act*. Included in the accounts is a provision for the employer's future pension liability calculated on an indexed basis. The provision for pension is actuarially determined on an annual basis using the projected benefit method prorated on services. The actuarial present value of the accrued pension benefits is measured using the corporation's best estimates based on assumptions relating to market interest rates at the measurement date based on high quality debt instruments, salary changes, withdrawals and mortality rates. Changes in experience gains and losses are recognized in the current period.

ii) Other Benefit Plans

Other benefit plans consist of post-retirement extended health and severance pay benefits.

The provision for post-retirement extended health benefits is actuarially determined on an annual basis using the projected benefit method prorated on services, which includes the corporation's best estimates based on assumptions relating to retirement ages of employees and expected health costs.

Employees of the corporation are entitled to severance pay in accordance with the Collective Agreement and corporation policy. The provision for severance pay is actuarially determined on an annual basis using the projected benefit method prorated on services, without salary projection, which includes the corporation's best estimates based on assumptions relating to the proportion of employees that will ultimately retire.

Provision for Unpaid Claims

The provision for unpaid claims represents an estimate for the full amount of all costs, including adjustment expenses, and the projected final settlements of claims incurred to the balance sheet date. These provisions take into account the time value of money. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. To recognize the uncertainty in establishing these estimates and to allow for possible deterioration in experience, actuaries include explicit margins for adverse deviation in their assumptions. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period except as noted in Note 4 (iii).

Salvage and Subrogation

Recoveries from salvage and subrogation are recorded as an offset to claims costs. Expected future subrogation recoveries are included in the provision for unpaid claims.

Premium Deficiencies

A premium deficiency exists when future claims and related expenses exceed unearned premiums.

Premium deficiencies are recognized first by writing down the deferred policy acquisition costs with any remainder recognized as a liability.

Allocation of Revenue, Claims Incurred and Expenses

Premiums written, premiums earned and claims incurred are allocated directly to the division writing the insurance risk.

Investment income is allocated to the automobile insurance division lines of business and the discontinued general insurance division based on a monthly averaging of the funds available within each division.

Expenses, including claims expense, are allocated to the automobile insurance division lines of business on the following basis:

i) Identifiable direct expenses are charged to each line of business.

ii) Where direct allocation is not possible, expenses are prorated to each line of business based mainly on factors such as space, number of employees and time usage. The formulas developed for the allocation of expenses are approved by the Board of Directors.

Reinsurance Ceded

Premiums, claims and expenses are reported net of amounts due to and recoverable from reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders.

The reinsurers' share of unearned commissions is recognized as a liability in a manner which is consistent with the method used in determining deferred policy acquisition costs.

The reinsurers' share of unearned premiums is recognized as an asset in a manner which is consistent with the method used in determining the unearned premium liability.

Foreign Currency

Monetary items denominated in foreign currencies are adjusted to reflect the exchange rate in effect at the year-end. Revenue and expense items in foreign currencies are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

The corporation uses currency swaps and forward exchange contracts to manage the currency risk on specific foreign exchange denominated assets. Any gains or losses are recorded in the Statement of Operations under the heading "Investment income," on a fair value basis.

Changes in unrealized foreign exchange currency translation amounts for AFS equity investments are recorded in the Statement of Comprehensive Income, and included in accumulated other comprehensive income until recognized in the Statement of Operations.

Basic Insurance Rate Stabilization Reserve

The Basic Insurance Rate Stabilization Reserve relates to basic universal compulsory automobile insurance and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

Immobilizer Incentive Fund

The Immobilizer Incentive Fund is an appropriation from the Basic Insurance Rate Stabilization Reserve. The fund is used to provide financial resources for vehicle owners to install electronic immobilizers and cover the administrative costs of the program.

Extension Development Fund

The Extension Development Fund is an appropriation from the Competitive Lines Retained Earnings. The fund is used to defray the annual driver licensing project costs that flow through the Extension line of business Statement of Operations.

Retained Earnings

Retained earnings are comprised of the accumulation of net income or losses for the Basic, Extension and Special Risk Extension lines of business.

Comprehensive Income

Comprehensive income consists of net income after surplus distribution and other comprehensive income. Changes in unrealized gains and losses on financial assets classified as available for sale, and changes in unrealized foreign exchange currency translation amounts are recorded in the Statement of Comprehensive Income, and included in accumulated other comprehensive income until recognized in the Statement of Operations. Accumulated other comprehensive income is included on the Balance Sheet as a separate component.

Future Changes in Accounting Policy and Disclosure

In December 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures*, Handbook Section 3862, *Financial Instruments – Disclosures* and Handbook Section 3863, *Financial Instruments – Presentation*. The following summarizes the future accounting changes that will be relevant to the corporation's financial statements commencing March 1, 2008:

Handbook Section 1535 requires the following disclosures: (i) qualitative information about an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity manages as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Handbook Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, but not changing the existing presentation requirements for financial instruments. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Handbook Section 3862 requires qualitative and quantitative disclosure of: (i) exposures to risks arising from financial instruments, how they arose and the potential impact on the amount, timing and certainty of future cash flows; (ii) information about the risk management function and the reporting and measurement systems used; (iii) the entity's policies for hedging or mitigating risk and avoiding concentrations of risk; and (iv) the sensitivity to individual market risk factors together with the methodology for performing the analysis. Handbook Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Changes in Accounting Policies

Accounting for Financial Instruments

Effective March 1, 2007 the corporation adopted the recommendations of the CICA Handbook Section 1530, *Comprehensive Income* ("Section 1530"); Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; and Section 3251, *Equity*. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities, and non-financial derivatives. Section 1530 provides standards for the reporting and presentation of Comprehensive Income, which represents the change in equity, from transactions and other events and circumstances from non-owner sources. Other Comprehensive Income refers to items recognized in Comprehensive Income that are excluded from Net Income calculated in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

These changes were applied on March 1, 2007, without prior period restatement, in accordance with the new standards and include the following transition adjustments:

i) Classification of the corporation's financial assets and liabilities into one of these four categories:

- available for sale (AFS) financial assets
- held to maturity (HTM) financial assets
- loans and receivables
- other liabilities

ii) The effect of this classification increased the carrying value of AFS financial assets by $80,275,000 from $1,532,739,000 to $1,613,014,000 at March 1, 2007 to reflect their fair value and established $80,275,000 as Accumulated Other Comprehensive Income. Accumulated Other Comprehensive Income is adjusted each period by unrealized gains (losses) on AFS financial assets and by the reclassification of realized gains (losses) on AFS assets to net income.

No changes resulted from the classification of the HTM financial assets or loans and receivables that are still being carried at amortized cost.

iii) As a consequential effect of applying these new standards, the claims liabilities were recalculated using a market rate at March 1, 2007 resulting in an increase to the claims liabilities of $22,948,000. Changes resulting from the recalculation have been recorded as transition adjustments in opening Basic Rate Stabilization Reserve and opening Competitive Lines retained earnings.

The transition adjustments recorded at March 1, 2007 are summarized in the following table.

(in thousands of dollars)	February 28, 2007	Transition Adjustments	March 1, 2007
Assets			
AFS Financial Assets:			
Canadian Equities	$ 336,748	$ 40,258	$ 377,006
U.S. Equities	96,736	7,755	104,491
Bonds	1,099,255	32,262	1,131,517
		$ 80,275	
Liabilities			
Provision for Unpaid Claims	$ 1,399,748	$ 22,948	$ 1,422,696
Retained Earnings			
Basic Rate Stabilization Reserve	128,122	(22,693)	105,429
Extension Retained Earnings	46,373	(58)	46,315
SRE Retained Earnings	64,610	(197)	64,413
		(22,948)	
Accumulated Other Comprehensive Income	–	80,275	80,275
		$ 80,275	

Other Changes in Accounting Policies

Effective March 1, 2007, the corporation applied the revised provisions of the CICA Handbook Section 1506, *Accounting Changes*. Accordingly, voluntary changes in accounting policies are made only if they result in reliable and more relevant information. No voluntary changes were made in 2007.

5. Cash and Investments

(in thousands of dollars)	2008				2007	
	Classified as Available for Sale	Classified as Held to Maturity	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Cash and short-term investments	$ 130,777	$ –	$ 130,777	$ 130,777	$ 57,100	$ 57,100
Bonds						
Federal	423,863	–	423,863	423,863	316,144	323,899
Manitoba:						
Provincial	312,078	–	312,078	312,078	267,507	275,412
Municipal	65,097	28,640	93,737	93,737	96,858	98,174
Hospitals	13,056	13,998	27,054	27,054	27,130	27,108
Schools	–	387,122	387,122	387,122	358,637	358,637
Other provinces	299,812	–	299,812	299,812	332,991	346,595
Corporations	88,690	–	88,690	88,690	97,068	98,161
Equity-linked note	–	–	–	–	20,000	20,000
	1,202,596	429,760	1,632,356	1,632,356	1,516,335	1,547,986
Other	7,110	–	7,110	7,110	8,091	8,710
Equity investments	417,070	–	417,070	417,070	433,484	481,497
	424,180	–	424,180	424,180	441,575	490,207
	$ 1,757,553	$ 429,760	$ 2,187,313	$ 2,187,313	$ 2,015,010	$ 2,095,293

Investment Risk

Investments carry certain financial risks including interest rate, cash flow and credit risk. The corporation manages these risks through the Investment Committee of the Board, which meets at least quarterly to discuss strategy and review performance and, if required, take remedial action. The investment objectives and goals of the corporation are embodied in an Investment Policy document, which sets target asset allocation and portfolio concentration limits as well as defining the credit quality of the counterparties and the percentage of highly liquid investments required to meet cash flow needs.

Significant terms and conditions, exposure to interest rate and credit risks on investments are:

i) Cash and short-term investments

Cash consists of cash net of cheques issued in excess of amounts on deposit. Included in cash and short-term investments are funds held in trust on behalf of other insurance companies in the amount of $976,000 (2007 – $1,168,000).

Short-term investments have a total principal amount of $125,302,000 (2007 – $54,910,000) comprised of provincial short-term deposits with an effective interest rate of 3.30 to 4.80 per cent (2007 – 4.05 per cent), with interest receivable at varying dates.

The corporation has an unsecured operating line of credit with its principal banker in the amount of $5.0 million. There were no drawdowns against this line of credit at February 29, 2008.

ii) Bonds – interest rate risk

		2008		2007	
	Interest Receivable Basis	**Effective Rate**	**Coupon Rate**	Effective Rate	Coupon Rate
		% Range		% Range	
Federal	semi-annual	**1.88 to 4.94**	**3.70 to 5.75**	1.79 to 4.71	3.55 to 5.75
Provincial	semi-annual	**1.03 to 5.76**	**1.75 to 8.50**	1.95 to 5.76	1.75 to 8.50
Municipal	semi-annual	**3.43 to 12.15**	**4.20 to 12.63**	4.15 to 12.17	4.20 to 12.63
Hospitals	semi-annual	**4.26 to 10.91**	**8.69 to 11.13**	4.76 to 11.07	8.69 to 11.13
Schools	semi-annual	**4.81 to 11.77**	**4.88 to 12.25**	4.81 to 11.81	4.88 to 12.25
Corporations	semi-annual	**3.52 to 5.79**	**3.49 to 11.00**	3.95 to 5.20	3.49 to 11.00

iii) Bonds – maturity profile

(in thousands of dollars)	2008			
	Within One Year	One Year to Five Years	After Five Years	Total Carrying Value
Federal	$ 96,376	$ 72,076	$ 255,411	$ 423,863
Manitoba:				
Provincial	22,944	77,256	211,878	312,078
Municipal	3,860	29,395	60,482	93,737
Hospitals	13,998	–	13,056	27,054
Schools	3,255	43,095	340,772	387,122
Other provinces	26,510	72,314	200,988	299,812
Corporations	9,109	25,221	54,360	88,690
	176,052	319,357	1,136,947	1,632,356
Equity-linked note	–	–	–	–
	$ 176,052	$ 319,357	$ 1,136,947	$ 1,632,356

(in thousands of dollars)	2007			
	Within One Year	One Year to Five Years	After Five Years	Total Carrying Value
Federal	$ 16,415	$ 54,481	$ 245,248	$ 316,144
Manitoba:				
Provincial	9,094	71,283	187,130	267,507
Municipal	312	15,010	81,536	96,858
Hospitals	–	14,192	12,938	27,130
Schools	1,057	45,168	312,412	358,637
Other provinces	4,999	75,729	252,263	332,991
Corporations	–	46,412	50,656	97,068
	31,877	322,275	1,142,183	1,496,335
Equity-linked note	20,000	–	–	20,000
	$ 51,877	$ 322,275	$ 1,142,183	$ 1,516,335

Currency Risk

i) Currency swap

The corporation has entered into a currency swap relating to a Province of Quebec provincial bond denominated in U.S. dollars for $10,000,000. The currency swap provides a fixed 5.76 per cent return in Canadian dollars. The agreement also provides that at predetermined future dates, the corporation pays a fixed 7.5 per cent rate based on the U.S. $10,000,000 par value of the bond and receives 5.76 per cent return based on a Canadian dollar notional value of $13,350,000. The maturity date of the currency swap and the bond is July 15, 2023.

ii) Foreign exchange contracts

The corporation has entered into monthly foreign exchange forward contracts, which provide that the corporation sells a specified amount of U.S. dollars at a predetermined forward exchange rate and purchases the same amount of U.S. dollars at the prevailing spot rate on the settlement date. At February 29, 2008, the corporation has contracted to sell U.S. $80,800,000 at a forward rate of 0.976 and purchase the same amount of U.S. dollars at the spot rate on March 31, 2008, which resulted in a loss of $4,357,000.

6. Property and Equipment

(in thousands of dollars)		2008		2007
	Cost	Accumulated Amortization	Carrying Value	Carrying Value
Land	$ 3,115	$ –	$ 3,115	$ 2,757
Land improvements	5,468	2,167	3,301	2,644
Buildings	28,565	12,631	15,934	16,216
Computer equipment	38,275	33,123	5,152	3,177
Vehicles	5,430	3,668	1,762	1,666
Furniture and equipment	14,819	11,630	3,189	3,237
	95,672	63,219	32,453	29,697
Leasehold improvements	1,760	1,602	158	174
	$ 97,432	$ 64,821	$ 32,611	$ 29,871

7. Provision for Employee Future Benefits

The corporation has a defined benefit pension plan, severance benefit plan and a post-retirement extended health benefit plan available to eligible employees. The defined benefit pension plan is based on years of service and final average salary whereas the severance benefit plan is based on years of service and final salary.

The corporation uses an actuarial valuation, on an annual basis, to measure the accrued provision for its benefit plans. The most recent actuarial valuation was conducted by an external actuary as at December 31, 2007, with the next scheduled actuarial valuation being December 31, 2008.

The actuarial valuation is based on the corporation's best estimate of various economic assumptions. With respect to the demographic assumptions, the corporation relies on and uses the assumptions adopted by the Civil Service Superannuation Board. Results from the most recent actuarial valuations, projected to February 29/28 and the corresponding economic assumptions are as follows:

	Pension Benefit Plan		Other Benefit Plans	
	2008	2007	**2008**	2007
Economic assumptions:				
Discount rate	**5.40%**	5.65%	**5.40%**	5.65%
Inflation rate	**2.00%**	2.25%	**–**	–
Expected salary increase	**2.75%**	2.75%	**–**	–
Expected health care cost increase	**–**	–	**7.00%**	7.00%

(in thousands of dollars)	Pension Benefit Plan		Other Benefit Plans	
	2008	2007	**2008**	2007
Balance, beginning of year	**$ 136,620**	$ 124,368	**$ 29,852**	$ 27,376
Current service cost	**6,630**	6,320	**3,251**	3,072
Interest cost	**8,039**	7,198	**583**	448
Benefits paid	**(4,282)**	(3,496)	**(2,109)**	(1,626)
Actuarial valuation deficiency	**8,718**	2,230	**1,278**	582
Provision for employee future benefits	**$ 155,725**	$ 136,620	**$ 32,855**	$ 29,852
Employee contribution for the year	**$ 5,343**	$ 5,108	**$ –**	$ –

Plan Assets

The corporation has not segregated investment assets to fund the benefit plans. Funding occurs as benefits are paid. The corporation has established a provision against general assets, which is being increased to match the increase in its benefit plan liabilities. The interest cost associated with the various benefit plans is based on market interest rates at the most recent valuation date.

(in thousands of dollars)	Pension Benefit Plan		Other Benefit Plans	
	2008	2007	**2008**	2007
Plan expenses for the year:				
Current service cost	**$ 6,630**	$ 6,320	**$ 3,251**	$ 3,072
Interest cost (Note 11)	**8,039**	7,198	**583**	448
Actuarial valuation deficiency				
Pertaining to interest (Note 11)	**5,492**	1,404	**–**	–
Pertaining to expense	**3,226**	826	**1,278**	582
	$ 23,387	$ 15,748	**$ 5,112**	$ 4,102

8. Provision for Unpaid Claims

The provision for unpaid claims, including adjustment expenses, represents an estimate for the full amount of all costs and the projected final settlement of claims incurred.

The provision for unpaid claims, including adjustment expenses, is subject to variability. This variability is related to future events that arise from the date the loss was reported to the ultimate settlement of the claims. Accordingly, short-tail claims such as physical damage claims tend to be more reasonably predictable than long-tail claims such as public liability claims. Factors such as the receipt of additional claims information during the claims settlement process, changes in severity and frequencies of claims from historical trends, and effects of inflationary trends contribute to this variability.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claim trends, investment rates of return and expectation on the future development of claims. The process of establishing this provision necessarily involves risks which could cause the actual results to deviate, perhaps substantially, from the best determinable estimate.

The provision for unpaid claims, including adjustment expenses, by major claims category includes:

(in thousands of dollars)	2008		2007	
	Gross	**Reinsurers' Share**	Gross	Reinsurers' Share
Automobile Insurance Division				
Liability	**$ 1,341,723**	**$ 29,975**	$ 1,258,744	$ 27,812
Physical Damage	**166,112**	**21,370**	135,664	32
	1,507,835	**51,345**	1,394,408	27,844
Discontinued Operations				
Personal/Commercial	**4,790**	**–**	5,340	–
	$ 1,512,625	**$ 51,345**	$ 1,399,748	$ 27,844

The provision for unpaid claims, including adjustment expenses, is discounted using the following discount rates:

	2008	2007
Benefits	Interest Rate Assumptions	
Pre-PIPP Weekly Indemnity	**2.6% per year**	3.0% per year
PIPP other than death and impairment	**2.6% per year**	3.0% per year
All other coverages	**4.6% per year**	5.0% per year

PIPP – Personal Injury Protection Plan

According to accepted actuarial practice, the discounted reserve includes a provision for adverse deviation of $271.3 million (2007 – $238.2 million) comprised of a claims development component of $158.2 million (2007 – $151.1 million), an interest rate component of $111.3 million (2007 – $87.1 million) and a reinsurance component of $1.8 million (2007 – $ nil).

Net claims incurred and adjustment expenses included losses from catastrophes of $10.0 million (2007 – $ nil). Catastrophes are an inherent risk to the corporation and may contribute materially to the year-to-year fluctuations in the corporation's results of operations and financial condition when they occur.

Unpaid claims liabilities are carried at values that reflect their remaining estimated ultimate costs for all accident years.

Changes in the estimate of net unpaid claims, recognized during the fiscal year ended February 29, 2008 for prior years, are as follows:

(in thousands of dollars)	Accident Years				
	2007	2006	2005	2004 and Prior	Total
Net unpaid claims (valuation estimate as at February 28, 2007)	$ 324,500	$ 165,087	$ 126,156	$ 756,159	
Net payments for the year	129,725	22,980	8,254	28,077	
	194,775	142,107	117,902	728,082	
Net unpaid claims (revised valuation estimate as at February 29, 2008)	196,148	146,189	113,298	664,771	
(Redundancy) Deficiency	$ 1,373	$ 4,082	$ (4,604)	$ (63,311)	$ (62,460)
Prior years (redundancy) deficiency		$ (23,408)	$ 4,089	$ (41,263)	$ (60,582)

Changes in the estimate of net unpaid claims for discontinued operations recognized during the fiscal year ended February 29, 2008 are a decrease of $0.4 million (2007 – decrease of $0.1 million). All of the net unpaid claims relate to loss dates prior to October 1, 1990.

The claims settlement processes may involve the use of structured settlements, which are purchased through various financial institutions. As of the balance sheet date, the present value of expected payments totals $142.2 million (2007 – $134.8 million) based on various dates of purchase. The corporation assumes a financial guarantee to make payments to claimants in the event that financial institutions default on payments under the terms of the structured settlement.

9. Reinsurance

The corporation follows the practice of obtaining reinsurance to limit its exposure to losses. Under agreements in effect at February 29, 2008, these reinsurance agreements limit the corporation's exposure to a maximum amount of $5.0 million (2007 – $5.0 million) on any one occurrence.

The reinsurance arrangements also limit the corporation's liability in respect to a series of claims arising out of a single occurrence, including catastrophic claims, to a maximum of $11.7 million (2007 – $10.0 million). These arrangements protect the corporation against losses up to $266.7 million (2007 – $183.3 million).

Certain lines of insurance carry maximum limits lower than these amounts. While these arrangements are made to protect against large losses, the primary liability to the policyholders remains with the corporation.

The corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant losses from reinsurer insolvency. The corporation holds collateral in regards to unregistered reinsurance in the form of amounts on deposit and letters of credit of $11.9 million (2007 – $0.4 million).

The figures shown in the Statement of Operations are net of the following amounts relating to reinsurance ceded to other companies:

(in thousands of dollars)		2008		2007
Premiums earned	$	**16,641**	$	12,291
Claims incurred	$	**45,330**	$	4,754

10. Operating Lease Commitments

The corporation is committed to make minimum annual operating lease payments for buildings and equipment. The minimum annual lease payments required are approximately as follows:

(in thousands of dollars)		
Fiscal Year	Minimum Lease Payments	
2009	$	3,281
2010	$	3,078
2011	$	3,311
2012	$	3,489
2013	$	3,474
thereafter	$	11,756

11. Investment Income

(in thousands of dollars)	2008	2007
Total investment income	$ 139,075	$ 129,027
Less allocation to provision for pension benefit plan (Note 7)	13,531	8,602
Investment income	$ 125,544	$ 120,425

Included in total investment income are foreign exchange gains of $6.2 million (2007 – loss of $6.8 million). Investment income is net of management fees paid to the Department of Finance in the amount of $3.3 million (2007 – $3.1 million). This includes $2.2 million (2007 – $1.9 million) of fees the Province paid to outside managers on Manitoba Public Insurance's behalf.

12. Discontinued General Insurance Operations

The corporation discontinued writing reinsurance assumed business effective November 18, 1987 and personal and commercial insurance policies effective October 1, 1990.

As of February 28, 2001 the corporation accepted a third-party offer to purchase the reinsurance assumed business from the corporation. Under the terms of the agreement, the corporation transferred and assigned to the third party the title, interest and all of the obligations resulting from the uncommuted reinsurance assumed treaties written by the corporation for the period July 1, 1975 to November 18, 1987 including retrocessional treaties. The obligations include all known or unknown liabilities. The primary liability to the treaty holders remains with the corporation in the event of the third party's insolvency.

Claims costs and expenses on personal and commercial policies will be incurred until all claims on existing policies are settled.

Discontinued operations resulted in net income of $0.8 million (2007 – $0.5 million) which is reported as part of the Special Risk Extension line of business (Note 13). Included in the provision for unpaid claims is $4.8 million (2007 – $5.3 million) relating to discontinued operations.

13. Net Income From Annual Operations

The lines of business reported net income from annual operations as follows:

(in thousands of dollars)	2008	2007
Basic insurance	$ 69,040	$ 47,783
Extension insurance	12,351	3,235
Special Risk Extension	16,049	17,370
	28,400	20,605
Net income from annual operations	$ 97,440	$ 68,388

14. Surplus Distribution

On November 26, 2007 the Public Utilities Board of Manitoba released its ruling on the corporation's 2008/2009 Basic Insurance rate application and ordered a surplus distribution of 10 per cent of the basic motor vehicle premiums written based on 2006/2007 rates. The surplus distribution, estimated to be $62.7 million, is recognized in 2007/2008 and will be paid to policyholders during the 2008/2009 fiscal year.

Last year's estimated surplus distribution of $60.0 million was actualized in the current fiscal year to $59.9 million, which was distributed to Basic policyholders.

15. Fair Value Disclosure

The fair value of financial assets and liabilities, other than those designated as Available for Sale, approximates their carrying value due to their short-term nature.

16. External Auditor and External Actuary Costs

The Basis of Reporting note (Note 2) provides information on the appointment of the external auditor and external actuary. In the normal course of business, and in addition to the annual attest audit of the corporation's financial statements and valuation of policy liabilities, the external auditor and external actuary provided advisory services to the corporation.

Costs incurred for services rendered are:

(in thousands of dollars)	2008	2007
KPMG LLP		
Audit fees	$ **171**	$ 190
Advisory fees	**2**	2
Total	$ **173**	$ 192
Ernst & Young LLP		
Valuation of policy liabilities fees	$ **107**	$ 118
Actuarial advisory fees	**89**	78
Management advisory fees	**6**	35
Total	$ **202**	$ 231

17. Driver Licensing Operations Recovery

Effective October 4, 2004 the Province of Manitoba transferred the management and administration of driver licensing to the corporation, which includes all aspects pertaining to driver safety, vehicle registration and driver licensing, including all related financial, administrative and data processing services.

The Province of Manitoba has agreed to provide funding to the corporation in the amount of $21.0 million annually, into perpetuity, payable in equal monthly instalments of $1.75 million to defray the cost borne by the corporation as a result of the transfer.

The prior year's $21.0 million funding was reduced by $0.5 million on a one-time basis to defray the costs to the Province of Manitoba of aligning the renewal of driver licences with motor vehicle registrations.

The corporation, on behalf of the Province of Manitoba, collects and transfers motor vehicle registration fees and driver licensing fees to the Province of Manitoba.

Fees collected on behalf of and transferred to the Province of Manitoba include:

(in thousands of dollars)	2008	2007
Vehicle registration fees	$ 102,702	$ 99,705
Driver licensing fees	21,880	16,992
Total	$ 124,582	$ 116,697

18. Immobilizer Incentive Fund

Activity in the Immobilizer Incentive Fund includes:

(in thousands of dollars)	2008	2007
Balance beginning of year	$ 33,143	$ 37,063
Transfer from Basic Insurance Rate Stabilization Reserve	–	10,000
Less: Funds transferred to Basic Insurance Rate Stabilization Reserve to offset program costs	(15,218)	(13,920)
Balance end of year	$ 17,925	$ 33,143

The Immobilizer Incentive Fund was established during the 2005/2006 fiscal year to fund the Immobilizer Incentive Program. An additional $10.0 million was transferred to the Immobilizer Incentive Fund during 2006/2007 to expand the No Cost Immobilizer Program to all Manitobans owning most-at-risk vehicles.

Program costs incurred are included in the "net income from annual operations after surplus distribution" for the Basic Insurance line of business, which is reported in the Statement of Retained Earnings under the heading "Rate Stabilization Reserve."

Funds are transferred from the Immobilizer Incentive Fund to the Basic Insurance Rate Stabilization Reserve to offset the program costs incurred.

19. Extension Development Fund

Effective March 1, 2007 the Board of Directors approved retained earnings targets for Extension and Special Risk Extension lines of business (Competitive Lines) based on 200 per cent of the most recent year's Minimum Capital Test (MCT). The MCT is a risk-based methodology developed by the Office of the Superintendent of Financial Institutions to assess a property and casualty insurance company's financial risk and determines the capital adequacy of reserves held in retained earnings.

Further, the Board of Directors approved that the Competitive Lines retained earnings in excess of the most recent year's target of 200 per cent of MCT will be appropriated, effective March 1, 2007 on a one-time basis, into the Extension Development Fund (EDF). As such, the EDF was established using $39 million of Competitive Lines retained earnings. The EDF is being used to defray the annual driver licensing project costs that flow through the Extension line of business Statement of Operations.

Activity in the EDF includes:

(in thousands of dollars)		2008		2007
Balance beginning of year	$	–	$	–
Transfer from Competitive Lines Retained Earnings		38,983		–
Transfer to Competitive Lines Retained Earnings		(3,594)		–
Balance end of year	$	35,389	$	–

20. Rate Regulation

The corporation's basic universal compulsory automobile insurance line of business (Basic Insurance) is subject to regulation by the Public Utilities Board (PUB) of Manitoba. Under the provisions of *The Crown Corporations Public Review and Accountability Act*, the PUB has the authority to review and approve Basic Insurance rates, premiums and service fees charged with respect to compulsory driver and vehicle insurance provided by the corporation. No new rates or fees for services can be introduced without the approval of the PUB. The PUB is required to ensure that the rates are just, reasonable and not unduly discriminatory or preferential.

Annually the corporation prepares its Basic Insurance general rate application and files it with the PUB in the month of June for implementation the following fiscal year commencing on March 1. The general rate application includes the prospective rate requirements based on historical and forecasted financial and other information as well as the application of actuarial, accounting and statistical principles and practices.

The corporation is required to pay a portion of the PUB's operating costs relating to the corporation's share of the overall PUB budget. In addition, the PUB can also order the corporation to reimburse other proceeding participants for specified costs such as their time, legal and expert witness fees.

21. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year financial statement presentation.

Manitoba Public Insurance Offices

Administrative Offices

Brandon
731-1st Street
R7A 6C3
Tel: 729-9400
Head office and Special
Risk Extension

Winnipeg
Box 6300 R3C 4A4
Tel: 985-7000

Outside Winnipeg
Tel: 1-800-665-2410

Deaf access TTY/TDD
Tel: 985-8832

Claim Offices

WINNIPEG LOCATIONS

North
445 King Street
R2W 5H2
Fax: 942-8317

North Central
1103 Pacific Avenue
R3E 1G7
Fax: 783-2764

South
930 St. Mary's Road
R2M 4A8
Fax: 254-0308

South Central
420 Pembina Highway
R3L 2E9
Fax: 284-7675

West
125 King Edward Street East
R3H 0V9
Fax: 783-0374

Casualty and Rehabilitation
Box 6300 R3C 4A4
Tel: 985-7200

Rehabilitative Case Management
Box 6300 R3C 4A4
Tel: 985-7200

Bodily Injury and MedEx Injury
Box 6300 R3C 4A4
Tel: 985-7200

Physical Damage Centre
1981 Plessis Road
Box 45064
Regent Postal Outlet
R2C 5C7
Tel: 985-7771

Holding Compound
Tel: 985-7771

Salvage
Tel: 985-7844

Commercial Claims
Tel: 985-7877

PROVINCIAL LOCATIONS

Arborg
323 Sunset Boulevard
Box 418 R0C 0A0
Tel: 376-6633

Beausejour
848 Park Avenue
Box 100A R0E 0C0
Tel: 268-6400

Brandon
731-1st Street
R7A 6C3
Tel: 729-9555 Claim Centre
Tel: 1-800-852-2743 Rural

Dauphin
217 Industrial Road
Box 3000 R7N 2V5
Tel: 622-2750

Flin Flon
8 Timber Lane
Box 250 R8A 1M9
Tel: 681-2200

Portage la Prairie
2007 Saskatchewan Avenue West
Box 1150 R1N 3J9
Tel: 856-2600

Selkirk
630 Sophia Street
R1A 2K1
Tel: 482-1400

Steinbach
91 North Front Drive
Box 2139 R5G 1N7
Tel: 326-4453

Steinbach Injury Claim Services
Clearspring Mall 2
PTH 12 R5G 1T7
Tel: 346-8030

Swan River
125-4th Avenue North
Box 1959 R0L 1Z0
Tel: 734-4574

The Pas
424 Fischer Avenue
Box 9100 R9A 1R5
Tel: 627-2200

Thompson
53 Commercial Place
Box 760 R8N 1N5
Tel: 677-1400

Winkler
355 Boundary Trail
Box 1990 R6W 4B7
Tel: 325-9538

Driver and Vehicle Licensing Centres

WINNIPEG LOCATIONS

Main Floor –
234 Donald Street
R3C 4A4
Tel: 985-7000

2020 Corydon Avenue
R3P 0N2
Tel: 985-8992

2188 McPhillips Street
R2V 3C8
Tel: 985-8984

1006 Nairn Avenue
R2L 0Y2
Tel: 985-8043

PROVINCIAL LOCATIONS

Brandon
731-1st Street
R7A 6C3
Tel: 729-9487

Dauphin
Provincial Building
27-2nd Avenue Southwest
R7N 3E5
Tel: 622-2783

Portage la Prairie
Provincial Building
25 Tupper Street North
R1N 3K1
Tel: 856-2624

Thompson
Provincial Building
105-59 Elizabeth Drive
R8N 1X4
Tel: 677-1421

Winkler
355 Boundary Trail
Box 1990 R6W 4B7
Tel: 325-9538

Manitoba
Public Insurance

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